

105TH CONGRESS  
1ST SESSION

# S. 559

To amend the Internal Revenue Code of 1986 to provide tax relief to middle income families who are struggling to pay for college, to amend the Higher Education Act of 1965 to provide significantly increased financial aid for needy students, provide universal access to postsecondary education, reduce student loan costs while improving student loan benefits, to streamline the Federal Family Education Loan Program, and for other purposes.

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## IN THE SENATE OF THE UNITED STATES

APRIL 10, 1997

Mr. DASCHLE (for himself and Mr. KENNEDY) (by request) introduced the following bill; which was read twice and referred to the Committee on Finance

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## A BILL

To amend the Internal Revenue Code of 1986 to provide tax relief to middle income families who are struggling to pay for college, to amend the Higher Education Act of 1965 to provide significantly increased financial aid for needy students, provide universal access to postsecondary education, reduce student loan costs while improving student loan benefits, to streamline the Federal Family Education Loan Program, and for other purposes.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*

1 That this Act may be cited as the “Hope and Opportunity  
2 for Postsecondary Education Act of 1997”.

### 3 TITLE I—TAX PROVISIONS

4 SHORT TITLE; AMENDMENT OF 1986 CODE; TABLE OF  
5 CONTENTS

6 SEC. 101. (a) SHORT TITLE.—This title may be cited  
7 as the “Higher Education Tax Incentive Act of 1997”.

8 (b) AMENDMENT OF 1986 CODE.—Except as other-  
9 wise expressly provided, whenever in this title an amend-  
10 ment or repeal is expressed in terms of an amendment  
11 to, or repeal of, a section or other provision, the reference  
12 shall be considered to be made to a section or other provi-  
13 sion of the Internal Revenue Code of 1986.

14 (c) TABLE OF CONTENTS.—

#### TITLE I—TAX PROVISIONS

Sec. 101. Short title; amendment of 1986 code; table of contents.  
Sec. 102. Credit for higher education expenses.  
Sec. 103. Deduction for higher education expenses.  
Sec. 104. Treatment of cancellation of certain student loans.  
Sec. 105. Employer-provided educational assistance programs.  
Sec. 106. Small business educational assistance credit.

### 15 CREDIT FOR HIGHER EDUCATION EXPENSES

16 SEC. 102. (a) IN GENERAL.—Subpart A of part IV  
17 of subchapter A of chapter 1 (relating to nonrefundable  
18 personal credits) is amended by inserting after section 24  
19 the following new section:

#### 20 **“SEC. 24A. HIGHER EDUCATION TUITION AND FEES.**

21 “(a) ALLOWANCE OF CREDIT.—In the case of an in-  
22 dividual, there shall be allowed as a credit against the tax

1 imposed by this chapter for the taxable year the amount  
 2 of qualified higher education expenses paid by the tax-  
 3 payer during such taxable year for education furnished  
 4 during any academic period beginning in such year.

5 “(b) LIMITATIONS.—

6 “(1) DOLLAR LIMITATION.—

7 “(A) IN GENERAL.—The amount allowed  
 8 as a credit under subsection (a) for any taxable  
 9 year with respect to the qualified higher edu-  
 10 cation expenses of any 1 individual shall not ex-  
 11 ceed \$1,500.

12 “(B) REDUCTION FOR OTHER NON-  
 13 TAXABLE FEDERAL ASSISTANCE.—

14 “(i) IN GENERAL.—If any nontaxable  
 15 Federal assistance is allocable to any aca-  
 16 demic period, the dollar amount applicable  
 17 under subparagraph (A) for the taxable  
 18 year in which such period begins shall be  
 19 reduced by the amount of such assistance.

20 “(ii) NONTAXABLE FEDERAL ASSIST-  
 21 ANCE.—For purposes of clause (i), the  
 22 term ‘nontaxable Federal assistance’  
 23 means any scholarship or grant provided  
 24 by the Federal Government which is ex-  
 25 empt from tax under this chapter by rea-

son of section 117 or any other Federal law. Such term shall not include any benefit described in section 480(c)(2) of the Higher Education Act of 1965 (20 U.S.C. 1087vv(c)(2)), as in effect on the date of enactment of this section.

“(2) CREDIT ALLOWED FOR ONLY 2 TAXABLE YEARS.—No credit shall be allowed under subsection (a) for a taxable year with respect to the qualified higher education expenses of an individual unless the taxpayer elects to have this section apply with respect to such individual for such year. An election under this paragraph shall not take effect with respect to an individual for any taxable year if an election under this paragraph (by the taxpayer or any other individual) is in effect with respect to such individual for any 2 prior taxable years.

“(3) CREDIT ALLOWED FOR YEAR ONLY IF INDIVIDUAL IS AT LEAST HALF-TIME STUDENT FOR PORTION OF YEAR.—No credit shall be allowed under subsection (a) for a taxable year with respect to the qualified higher education expenses of an individual unless such individual is an eligible student for at least one academic period which begins during such year.

1           “(4) CREDIT ALLOWED ONLY FOR FIRST TWO  
 2           YEARS OF POSTSECONDARY EDUCATION.—No credit  
 3           shall be allowed under subsection (a) for a taxable  
 4           year with respect to the qualified higher education  
 5           expenses for an individual if the individual has com-  
 6           pleted (before the beginning of such taxable year)  
 7           the first 2 years of postsecondary education at an  
 8           institution of higher education.

9           “(c) LIMITATION BASED ON MODIFIED ADJUSTED  
 10          GROSS INCOME.—

11           “(1) IN GENERAL.—The amount which would  
 12           (but for this subsection) be taken into account under  
 13           subsection (a) for the taxable year shall be reduced  
 14           (but not below zero) by the amount determined  
 15           under paragraph (2).

16           “(2) AMOUNT OF REDUCTION.—The amount  
 17           determined under this paragraph is the amount  
 18           which bears the same ratio to the amount which  
 19           would be so taken into account as—

20                   “(A) the excess of—

21                           “(i) the taxpayer’s modified adjusted  
 22                           gross income for such taxable year, over

23                           “(ii) \$50,000 (\$80,000 in the case of  
 24                           a joint return), bears to

25                           “(B) \$20,000.

1           “(3) MODIFIED ADJUSTED GROSS INCOME.—

2           The term ‘modified adjusted gross income’ means  
3           the adjusted gross income of the taxpayer for the  
4           taxable year—

5                   “(A) determined without regard to section  
6                   221, and

7                   “(B) increased by any amount excluded  
8                   from gross income under section 911, 931, or  
9                   933.

10          “(d) DEFINITIONS.—For purposes of this section—

11                   “(1) QUALIFIED HIGHER EDUCATION EX-  
12                   PENSES.—

13                   “(A) IN GENERAL.—The term ‘qualified  
14                   higher education expenses’ means tuition and  
15                   fees required for the enrollment or attendance  
16                   of—

17                           “(i) the taxpayer,

18                           “(ii) the taxpayer’s spouse, or

19                           “(iii) any dependent of the taxpayer

20                   with respect to whom the taxpayer is al-

21                   lowed a deduction under section 151,

22                   at an institution of higher education.

23                   “(B) EXCEPTION FOR EDUCATION INVOLV-

24                   ING SPORTS, ETC.—Such term does not include

25                   expenses with respect to any course or other

1 education involving sports, games, or hobbies,  
 2 unless such course or other education is part of  
 3 the individual's degree program.

4 “(C) EXCEPTION FOR NONACADEMIC  
 5 FEES.—Such term does not include student ac-  
 6 tivity fees, athletic fees, insurance expenses, or  
 7 other expenses unrelated to an individual's aca-  
 8 demic course of instruction.

9 “(2) INSTITUTION OF HIGHER EDUCATION.—  
 10 The term ‘institution of higher education’ means an  
 11 institution—

12 “(A) which is described in section 481 of  
 13 the Higher Education Act of 1965 (20 U.S.C.  
 14 1088), as in effect on the date of the enactment  
 15 of this section, and

16 “(B) which is eligible to participate in a  
 17 program under title IV of such Act.

18 “(3) ELIGIBLE STUDENT.—The term ‘eligible  
 19 student’ means, with respect to any academic period,  
 20 a student who—

21 “(A) meets the requirements of section  
 22 484(a)(1) of the Higher Education Act of 1965  
 23 (20 U.S.C. 1091(a)(1)), as in effect on the date  
 24 of the enactment of this section, and

1           “(B) is carrying at least  $\frac{1}{2}$  the normal  
 2           full-time work load for the course of study the  
 3           student is pursuing.

4           “(4) OTHER TERMS RELATING TO THE HIGHER  
 5           EDUCATION ACT.—The following terms shall have  
 6           the meanings prescribed in regulations under section  
 7           481(g) of the Higher Education Act of 1965 (20  
 8           U.S.C. 1088(g)), as added by the Student Financial  
 9           Aid Improvements Act of 1997:

10           “(A) Academic period.

11           “(B) Normal full-time workload.

12           “(C) First two years of postsecondary edu-  
 13           cation.

14           “(D) Qualifying grade point average.

15           “(E) Job skills and new job skills.

16           “(e) TREATMENT OF EXPENSES PAID BY DEPEND-  
 17           ENT.—If a deduction under section 151 with respect to  
 18           an individual is allowed to another taxpayer for a taxable  
 19           year beginning in the calendar year in which such individ-  
 20           ual’s taxable year begins—

21           “(1) no credit shall be allowed under subsection  
 22           (a) to such individual for such individual’s taxable  
 23           year, and

24           “(2) qualified higher education expenses paid  
 25           by such individual during such individual’s taxable



1 year shall be treated for purposes of this section as  
2 paid by such other taxpayer.

3 “(f) TREATMENT OF CERTAIN PREPAYMENTS.—If  
4 qualified higher education expenses are paid by the tax-  
5 payer during a taxable year for an academic period which  
6 begins during the first 3 months following such taxable  
7 year, such academic period shall be treated for purposes  
8 of this section as beginning during such taxable year.

9 “(g) SPECIAL RULES.—

10 “(1) DENIAL OF CREDIT IF INDIVIDUAL CON-  
11 VICTED OF DRUG OFFENSE.—No credit shall be al-  
12 lowed under subsection (a) with respect to the quali-  
13 fied higher education expenses of an individual for  
14 any taxable year if the individual has been convicted  
15 before the end of such year of a Federal or State fel-  
16 ony offense consisting of the possession or distribu-  
17 tion of a controlled substance.

18 “(2) DENIAL OF CREDIT IF INDIVIDUAL FAILS  
19 TO SATISFY GRADE POINT AVERAGE REQUIRE-  
20 MENT.—If an election was in effect under this sec-  
21 tion with respect to the qualified higher education  
22 expenses of an individual for any taxable year, no  
23 credit shall be allowed under subsection (a) with re-  
24 spect to qualified higher education expenses of such  
25 individual for a succeeding taxable year if the indi-

vidual does not have a qualifying grade point average for all courses at an institution of higher education for academic periods ending before the beginning of such succeeding taxable year. Such average shall be determined without regard to—

“(A) courses taken while attending high school, and

“(B) courses referred to in subsection (d)(1)(B).

“(3) NO DOUBLE BENEFIT.—No credit shall be allowed under subsection (a) for any taxable year for any expense—

“(A) with respect to an individual if a deduction is allowed under section 221 for the taxable year for any expense with respect to such individual, or

“(B) for which a deduction is allowed under any other provision of this chapter.

“(4) IDENTIFICATION REQUIREMENT.—No credit shall be allowed under subsection (a) to a taxpayer with respect to the qualified higher education expenses of an individual unless the taxpayer includes the name and taxpayer identification number of such individual on the return of tax for the taxable year.

1           “(5) ADJUSTMENT FOR CERTAIN SCHOLAR-  
2           SHIPS.—The amount of qualified higher education  
3           expenses otherwise taken into account under sub-  
4           section (a) with respect to an individual for an aca-  
5           demic period shall be reduced (before the application  
6           of subsections (b) and (c)) by the sum of—

7                   “(A) any amounts paid for the benefit of  
8                   such individual which are allocable to such pe-  
9                   riod as—

10                           “(i) a qualified scholarship which is  
11                           excludable from gross income under section  
12                           117,

13                           “(ii) an educational assistance allow-  
14                           ance under chapter 30, 31, 32, 34, or 35  
15                           of title 38, United States Code, or under  
16                           chapter 1606 of title 10, United States  
17                           Code,

18                           “(iii) a payment which is excludable  
19                           from gross income under section 127, or

20                           “(iv) a payment (other than a gift, be-  
21                           quest, devise, or inheritance within the  
22                           meaning of section 102(a)) for such indi-  
23                           vidual’s educational expenses, or attrib-  
24                           utable to such individual’s enrollment at an  
25                           institution of higher education, which is ex-

1 cludable from gross income under any law  
 2 of the United States, and

3 “(B) the amount excludable from gross in-  
 4 come under section 135 which is allocable to  
 5 such expenses with respect to such individual  
 6 for such period.

7 “(6) NO CREDIT FOR MARRIED INDIVIDUALS  
 8 FILING SEPARATE RETURNS.—If the taxpayer is a  
 9 married individual (within the meaning of section  
 10 7703), this section shall apply only if the taxpayer  
 11 and the taxpayer’s spouse file a joint return for the  
 12 taxable year.

13 “(7) NONRESIDENT ALIENS.—If the taxpayer is  
 14 a nonresident alien individual for any portion of the  
 15 taxable year, this section shall apply only if such in-  
 16 dividual is treated as a resident alien of the United  
 17 States for purposes of this chapter by reason of an  
 18 election under subsection (g) or (h) of section 6013.

19 “(h) INFLATION ADJUSTMENTS.—

20 “(1) DOLLAR LIMITATION ON AMOUNT OF  
 21 CREDIT.—

22 “(A) IN GENERAL.—In the case of a tax-  
 23 able year beginning after 1997, the \$1,500  
 24 amount in subsection (b)(1)(A) shall be in-  
 25 creased by an amount equal to—

1 “(i) such dollar amount, multiplied by

2 “(ii) the cost-of-living adjustment de-  
3 termined under section 1(f)(3) for the cal-  
4 endar year in which the taxable year be-  
5 gins, determined by substituting ‘calendar  
6 year 1996’ for ‘calendar year 1992’ in sub-  
7 paragraph (B) thereof.

8 “(B) ROUNDING.—If any amount as ad-  
9 justed under subparagraph (A) is not a multiple  
10 of \$50, such amount shall be rounded to the  
11 next lowest multiple of \$50.

12 “(2) INCOME LIMITS.—

13 “(A) IN GENERAL.—In the case of a tax-  
14 able year beginning after 2000, the \$50,000  
15 and \$80,000 amounts in subsection (c)(2) and  
16 section 221(b)(2)(B)(i)(II) shall each be in-  
17 creased by an amount equal to—

18 “(i) such dollar amount, multiplied by

19 “(ii) the cost-of-living adjustment de-  
20 termined under section 1(f)(3) for the cal-  
21 endar year in which the taxable year be-  
22 gins, determined by substituting ‘calendar  
23 year 1999’ for ‘calendar year 1992’ in sub-  
24 paragraph (B) thereof.

1                   “(B) ROUNDING.—If any amount as ad-  
 2                   justed under subparagraph (A) is not a multiple  
 3                   of \$5,000, such amount shall be rounded to the  
 4                   next lowest multiple of \$5,000.

5           “(i) REGULATIONS.—The Secretary may prescribe  
 6 such regulations as may be necessary or appropriate to  
 7 carry out this section, including regulations providing for  
 8 a recapture of credit allowed under this section in cases  
 9 where there is a refund in a subsequent taxable year of  
 10 any amount which was taken into account in determining  
 11 the amount of such credit.”

12           (b) EXTENSION OF PROCEDURES APPLICABLE TO  
 13 MATHEMATICAL OR CLERICAL ERRORS.—Paragraph (2)  
 14 of section 6213(g) (relating to the definition of mathe-  
 15 matical or clerical errors) is amended by striking “and”  
 16 at the end of subparagraph (G), by striking the period  
 17 at the end of subparagraph (H) and inserting “, and”,  
 18 and by inserting after subparagraph (H) the following new  
 19 subparagraph:

20                   “(I) an omission of a correct TIN required  
 21                   under section 24A(g)(4) or under section  
 22                   221(d)(2)(A) (relating to higher education tui-  
 23                   tion and fees) to be included on a return.”

24           (c) RETURNS RELATING TO HIGHER EDUCATION  
 25 EXPENSES.—

1           (1) IN GENERAL.—Subpart B of part III of  
 2           subchapter A of chapter 61 (relating to information  
 3           concerning transactions with other persons) is  
 4           amended by inserting after section 6050R the fol-  
 5           lowing new section:

6   **“SEC. 6050S. RETURNS RELATING TO HIGHER EDUCATION**  
 7                           **EXPENSES.**

8           “(a) IN GENERAL.—Any person—

9                   “(1) which is an institution of higher education  
 10           which receives payments for qualified higher edu-  
 11           cation expenses with respect to any individual for  
 12           any calendar year, or

13                   “(2) which is engaged in a trade or business  
 14           which, in the course of such trade or business makes  
 15           payments during any calendar year to any individual  
 16           which constitute reimbursements or refunds (or  
 17           similar amounts) of qualified higher education ex-  
 18           penses of such individual,

19           shall make the return described in subsection (b) with re-  
 20           spect to the individual at such time as the Secretary may  
 21           by regulations prescribe.

22           “(b) FORM AND MANNER OF RETURNS.—A return  
 23           is described in this subsection if such return—

24                   “(1) is in such form as the Secretary may pre-  
 25           scribe,

1 “(2) contains—

2 “(A) the name, address, and TIN of the  
3 individual with respect to whom payments de-  
4 scribed in subsection (a) were received from (or  
5 were paid to),

6 “(B) the name, address, and TIN of any  
7 individual certified by the individual described  
8 in subparagraph (A) as the taxpayer who will  
9 claim the individual as a dependent for pur-  
10 poses of the deduction allowable under section  
11 151 for any taxable year ending with or within  
12 the calendar year,

13 “(C) the—

14 “(i) aggregate amount of payments  
15 for qualified higher education expenses re-  
16 ceived with respect to the individual de-  
17 scribed in subparagraph (A) during the  
18 calendar year, and

19 “(ii) aggregate amount of reimburse-  
20 ments or refunds (or similar amounts)  
21 paid to such individual during the calendar  
22 year,

23 “(D) the aggregate amount of nontaxable  
24 Federal assistance received with respect to the



1 individual described in subparagraph (A) during  
2 the calendar year, and

3 “(E) such other information as the Sec-  
4 retary may prescribe.

5 “(c) APPLICATION TO GOVERNMENTAL UNITS.—For  
6 purposes of this section—

7 “(1) a governmental unit or any agency or in-  
8 strumentality thereof shall be treated as a person,  
9 and

10 “(2) any return required under subsection (a)  
11 by such governmental entity shall be made by the of-  
12 ficer or employee appropriately designated for the  
13 purpose of making such return.

14 “(d) STATEMENTS TO BE FURNISHED TO INDIVID-  
15 UALS WITH RESPECT TO WHOM INFORMATION IS RE-  
16 QUIRED.—Every person required to make a return under  
17 subsection (a) shall furnish to each individual whose name  
18 is required to be set forth in such return under subpara-  
19 graph (A) or (B) of subsection (b)(2) a written statement  
20 showing—

21 “(1) the name, address, and phone number of  
22 the information contact of the person required to  
23 make such return, and

24 “(2) the aggregate amounts described in sub-  
25 paragraphs (C) and (D) of subsection (b)(2).

1 The written statement required under the preceding sen-  
 2 tence shall be furnished on or before January 31 of the  
 3 year following the calendar year for which the return  
 4 under subsection (a) was required to be made.

5 “(e) DEFINITIONS.—For purposes of this section, the  
 6 terms ‘institution of higher education’, ‘qualified higher  
 7 education expenses’, and ‘nontaxable Federal assistance’  
 8 have the meanings given such terms by section 24A.

9 “(f) RETURNS WHICH WOULD BE REQUIRED TO BE  
 10 MADE BY 2 OR MORE PERSONS.—Except to the extent  
 11 provided in regulations prescribed by the Secretary, in the  
 12 case of any amount received by any person on behalf of  
 13 another person, only the person first receiving such  
 14 amount shall be required to make the return under sub-  
 15 section (a).

16 “(g) REGULATIONS.—The Secretary shall prescribe  
 17 such regulations as may be necessary to carry out the pro-  
 18 visions of this section. No penalties shall be imposed under  
 19 section 6724 with respect to any return or statement re-  
 20 quired under this section until such time as such regula-  
 21 tions are issued.”

22 (2) ASSESSABLE PENALTIES.—Section 6724(d)  
 23 (relating to definitions) is amended—

24 (A) by redesignating clauses (x) through  
 25 (xv) as clauses (xi) through (xvi), respectively,

1 in paragraph (1)(B) and by inserting after  
 2 clause (ix) of such paragraph the following new  
 3 clause:

4 “(x) section 6050S (relating to re-  
 5 turns relating to payments for qualified  
 6 higher education expenses),”, and

7 (B) by striking “or” at the end of the next  
 8 to last subparagraph, by striking the period at  
 9 the end of the last subparagraph and inserting  
 10 “, or”, and by adding at the end the following  
 11 new subparagraph:

12 “(Z) section 6050S(d) (relating to returns  
 13 relating to qualified higher education ex-  
 14 penses).”

15 (3) CLERICAL AMENDMENT.—The table of sec-  
 16 tions for subpart B of part III of subchapter A of  
 17 chapter 61 is amended by inserting after the item  
 18 relating to section 6050R the following new item:

“Sec. 6050S. Returns relating to higher education expenses.”

19 (d) CLERICAL AMENDMENT.—The table of sections  
 20 for subpart A of part IV of subchapter A of chapter 1  
 21 is amended by inserting after the item relating to section  
 22 24 the following new item:

“Sec. 24A. Higher education tuition and fees.”

23 (e) EFFECTIVE DATE; SUNSET.—

1           (1) PURPOSE.—The President’s budget pro-  
 2       duces balance in fiscal year 2002 under Office of  
 3       Management and Budget assumptions, including the  
 4       permanent changes in law providing tax reduction  
 5       set forth in the preceding portions of this section.  
 6       The President’s budget also includes a mechanism to  
 7       guarantee balance under Congressional Budget Of-  
 8       fice assumptions. As a part of that mechanism, the  
 9       following provision sunseting the tax reduction is  
 10      included, as well as specific expedited procedures for  
 11      reinstatement of the reduction to the extent that Of-  
 12      fice of Management and Budget assumptions prove  
 13      correct.

14           (2) The amendments made by this section shall  
 15      apply to expenses paid after December 31, 1996 (in  
 16      taxable years ending after such date), for education  
 17      furnished in academic periods beginning after June  
 18      30, 1997, except that no credit shall be allowed  
 19      under section 24A of the Internal Revenue Code of  
 20      1986 for taxable years beginning after December 31,  
 21      2000.

22       DEDUCTION FOR HIGHER EDUCATION EXPENSES

23       SEC. 103. (a) DEDUCTION ALLOWED.—Part VII of  
 24      subchapter B of chapter 1 (relating to additional itemized  
 25      deductions for individuals) is amended by redesignating

1 section 221 as section 222 and by inserting after section  
2 220 the following new section:

3 **“SEC. 221. HIGHER EDUCATION TUITION AND FEES.**

4       “(a) ALLOWANCE OF DEDUCTION.—In the case of an  
5 individual, there shall be allowed as a deduction the  
6 amount of qualified higher education expenses paid by the  
7 taxpayer during the taxable year for education furnished  
8 to the taxpayer, the taxpayer’s spouse, or any dependent  
9 of the taxpayer with respect to whom the taxpayer is al-  
10 lowed a deduction under section 151, as an eligible student  
11 at an institution of higher education during any academic  
12 period beginning in such year.

13       “(b) LIMITATIONS.—

14               “(1) DOLLAR LIMITATION.—

15                       “(A) IN GENERAL.—The amount allowed  
16 as a deduction under subsection (a) for any tax-  
17 able year shall not exceed \$10,000.

18                       “(B) PHASE-IN.—In the case of taxable  
19 years beginning in 1997 or 1998, subparagraph  
20 (A) shall be applied by substituting ‘\$5,000’ for  
21 ‘\$10,000’.

22               “(2) LIMITATION BASED ON MODIFIED AD-  
23 JUSTED GROSS INCOME.—

24                       “(A) IN GENERAL.—The amount which  
25 would (but for this paragraph) be allowed as a

1 deduction under subsection (a) shall be reduced  
2 (but not below zero) by the amount determined  
3 under subparagraph (B).

4 “(B) AMOUNT OF REDUCTION.—The  
5 amount determined under this subparagraph  
6 equals the amount which bears the same ratio  
7 to the deduction (determined without regard to  
8 this paragraph) as—

9 “(i) the excess of—

10 “(I) the taxpayer’s modified ad-  
11 justed gross income for the taxable  
12 year, over

13 “(II) \$50,000 (\$80,000 in the  
14 case of a joint return), bears to

15 “(ii) \$20,000.

16 “(C) MODIFIED ADJUSTED GROSS IN-  
17 COME.—For purposes of subparagraph (B), the  
18 term ‘modified adjusted gross income’ means  
19 the adjusted gross income of the taxpayer for  
20 the taxable year determined—

21 “(i) without regard to this section and  
22 sections 911, 931, and 933, and

23 “(ii) after the application of sections  
24 86, 135, 219, and 469.

1 For purposes of sections 86, 135, 219, and  
 2 469, adjusted gross income shall be determined  
 3 without regard to the deduction allowed under  
 4 this section.

5 “(D) CROSS REFERENCE.—

**“For inflation adjustment of \$50,000 and \$80,000 amounts, see section 24A(h).**

6 “(c) DEFINITIONS.—For purposes of this section—

7 “(1) IN GENERAL.—Except as provided in para-  
 8 graph (2), terms used in this section which are also  
 9 used in section 24A have the respective meanings  
 10 given such terms in section 24A.

11 “(2) DEDUCTION AVAILABLE FOR EDUCATION  
 12 TO ACQUIRE OR IMPROVE JOB SKILLS.—For pur-  
 13 poses of applying this section, the requirement of  
 14 section 24A(d)(3) shall be treated as met if—

15 “(A) the individual is enrolled in a course  
 16 which enables the individual to improve the in-  
 17 dividual’s job skills or to acquire new job skills,  
 18 and

19 “(B) the individual is not enrolled in an el-  
 20 ementary or secondary school.

21 “(d) SPECIAL RULES.—

22 “(1) DENIAL OF DOUBLE BENEFIT.—No deduc-  
 23 tion shall be allowed under subsection (a) for any ex-

1       pense for which a deduction is allowed to the tax-  
 2       payer under any other provision of this chapter.

3               “(2) CERTAIN RULES TO APPLY.—Rules similar  
 4       to the rules of subsections (e) and (f) of section  
 5       24A, and the following rules of section 24A(g), shall  
 6       apply for purposes of this section:

7               “(A) Paragraph (4) (relating to identifica-  
 8       tion requirement).

9               “(B) Paragraph (5) (relating to adjust-  
 10       ment for certain scholarships).

11              “(C) Paragraph (6) (relating to no benefit  
 12       for married individuals filing separate returns).

13              “(D) Paragraph (7) (relating to non-  
 14       resident aliens).

15              “(3) REGULATIONS.—The Secretary may pre-  
 16       scribe such regulations as may be necessary or ap-  
 17       propriate to carry out this section.”

18       (b) DEDUCTION ALLOWED IN COMPUTING AD-  
 19       JUSTED GROSS INCOME.—Section 62(a) is amended by in-  
 20       serting after paragraph (16) the following new paragraph:

21              “(17) HIGHER EDUCATION TUITION AND  
 22       FEES.—The deduction allowed by section 221.”

23       (c) CONFORMING AMENDMENT.—The table of sec-  
 24       tions for part VII of subchapter B of chapter 1 is amended  
 25       by striking the item relating to section 221 and inserting:



“Sec. 221. Higher education tuition and fees.

“Sec. 222. Cross reference.”

1 (d) EFFECTIVE DATE; SUNSET.—

2 (1) PURPOSE.—The President’s budget pro-  
3 duces balance in fiscal year 2002 under Office of  
4 Management and Budget assumptions, including the  
5 permanent changes in law providing tax reduction  
6 set forth in the preceding portions of this section.  
7 The President’s budget also includes a mechanism to  
8 guarantee balance under Congressional Budget Of-  
9 fice assumptions. As a part of that mechanism, the  
10 following provision sunsetting the tax reduction is  
11 included, as well as specific expedited procedures for  
12 reinstatement of the reduction to the extent that Of-  
13 fice of Management and Budget assumptions prove  
14 correct.

15 (2) The amendments made by this section shall  
16 apply to expenses paid after December 31, 1996 (in  
17 taxable years ending after such date), for education  
18 furnished in academic periods beginning after June  
19 30, 1997, except that no deduction shall be allowed  
20 under section 221 of the Internal Revenue Code of  
21 1986 for taxable years beginning after December 31,  
22 2000.

5 Paragraph (1) of section 108(f) is amended by striking  
6 “any student loan if” and all that follows and inserting  
7 “any student loan if—

“(B) in the case of a loan made under part D of title IV of the Higher Education Act of 1965 which has a repayment schedule established under section 455(e)(4) of such Act (relating to income contingent repayments), such discharge is after the maximum repayment period under such loan (as prescribed under such part).”

(1) IN GENERAL.—Paragraph (2) of section 108(f) (defining student loan) is amended by striking “or” at the end of subparagraphs (B) and (C)

1 and by striking subparagraph (D) and inserting the  
 2 following:

3 “(D) any organization described in section  
 4 501(c)(3) and exempt from tax under section  
 5 501(a), or

6 “(E) any educational organization de-  
 7 scribed in section 170(b)(1)(A)(ii) pursuant to  
 8 an agreement with any entity described in sub-  
 9 paragraph (A), (B), (C), or (D) under which  
 10 the funds from which the loan was made were  
 11 provided to such educational organization.

12 The term ‘student loan’ includes any loan made by  
 13 an organization described in subparagraph (D) to  
 14 refinance a loan meeting the requirements of the  
 15 preceding sentence.”

16 (2) EXCEPTION FOR DISCHARGES ON ACCOUNT  
 17 OF SERVICES PERFORMED FOR CERTAIN LEND-  
 18 ERS.—Subsection (f) of section 108 is amended by  
 19 adding at the end the following new paragraph:

20 “(3) EXCEPTION FOR DISCHARGES ON AC-  
 21 COUNT OF SERVICES PERFORMED FOR CERTAIN  
 22 LENDERS.—Paragraph (1) shall not apply to the  
 23 discharge of a loan made by an organization de-  
 24 scribed in paragraph (2)(D) (or by an organization  
 25 described in paragraph (2)(E) from funds provided

1 by an organization described in paragraph (2)(D)) if  
 2 the discharge is on account of services performed for  
 3 either such organization.”

4 (c) EFFECTIVE DATE.—The amendments made by  
 5 this section shall apply to discharges of indebtedness after  
 6 the date of the enactment of this Act.

7 EMPLOYER-PROVIDED EDUCATIONAL ASSISTANCE  
 8 PROGRAMS

9 SEC. 105. (a) EXTENSION.—Subsection (d) of section  
 10 127 (relating to exclusion for educational assistance pro-  
 11 grams) is amended to read as follows:

12 “(d) TERMINATION.—This section shall not apply to  
 13 taxable years beginning after December 31, 2000.”

14 (b) REPEAL OF LIMITATION ON GRADUATE EDU-  
 15 CATION.—The last sentence of section 127(c)(1) is amend-  
 16 ed by striking “, and such term also does not include any  
 17 payment for, or the provision of any benefits with respect  
 18 to, any graduate level course of a kind normally taken by  
 19 an individual pursuing a program leading to a law, busi-  
 20 ness, medical, or other advanced academic or professional  
 21 degree”.

22 (c) EFFECTIVE DATES.—

23 (1) EXTENSION.—The amendments made by  
 24 subsection (a) shall apply to taxable years beginning  
 25 after December 31, 1996.

1           (2) GRADUATE EDUCATION.—The amendment  
 2       made by subsection (b) shall apply with respect to  
 3       expenses relating to courses beginning after June  
 4       30, 1996.

5           (3) EXPEDITED PROCEDURES.—The Secretary  
 6       of the Treasury shall establish expedited procedures  
 7       for the refund of any overpayment of taxes imposed  
 8       by the Internal Revenue Code of 1986 which is at-  
 9       tributable to amounts excluded from gross income  
 10      during 1996 or 1997 under section 127 of such  
 11      Code, including procedures waiving the requirement  
 12      that an employer obtain an employee’s signature  
 13      where the employer demonstrates to the satisfaction  
 14      of the Secretary that any refund collected by the em-  
 15      ployer on behalf of the employee will be paid to the  
 16      employee.

17      SMALL BUSINESS EDUCATIONAL ASSISTANCE CREDIT

18      SEC. 106. (a) IN GENERAL.—Subpart D of part IV  
 19      of subchapter A of chapter 1 (relating to business related  
 20      credits) is amended by adding at the end the following  
 21      new section:

22      **“SEC. 45D. SMALL BUSINESS EDUCATIONAL ASSISTANCE**  
 23                                   **CREDIT.**

24      “(a) GENERAL RULE.—For purposes of section 38,  
 25      the small business educational assistance credit for any  
 26      taxable year is an amount equal to 10 percent of the quali-

1 fied educational assistance expenses of the taxpayer for  
 2 the taxable year.

3 “(b) QUALIFIED EDUCATIONAL ASSISTANCE EX-  
 4 PENSES.—For purposes of this section—

5 “(1) IN GENERAL.—The term ‘qualified edu-  
 6 cational assistance expenses’ means any amount  
 7 paid or incurred by an eligible small employer for  
 8 educational assistance furnished to an employee of  
 9 the employer by a person other than such employer  
 10 (or an employee of such employer) under an edu-  
 11 cational assistance program described in section  
 12 127(b).

13 “(2) EDUCATIONAL ASSISTANCE.—The term  
 14 ‘educational assistance’ has the meaning given such  
 15 term by section 127(c)(1) (determined without re-  
 16 gard to subparagraph (B) thereof).

17 “(3) LIMITATIONS.—

18 “(A) DOLLAR LIMITATION PER EM-  
 19 PLOYEE.—The aggregate amount which may be  
 20 taken into account under paragraph (1) with  
 21 respect to any employee for any taxable year  
 22 shall not exceed \$5,250.

23 “(B) PAYMENTS TO RELATED PERSONS.—

24 “(i) IN GENERAL.—No amount shall  
 25 be taken into account under paragraph (1)

1 if such amount is to be paid to a related  
2 person with respect to the employer.

3 “(ii) RELATED PERSON.—For pur-  
4 poses of this subparagraph, a person shall  
5 be related to the employer if—

6 “(I) such person is a 5-percent  
7 owner (within the meaning of section  
8 416(i)(1)(B)(i)) of the employer, or

9 “(II) such person bears a rela-  
10 tionship to the employer or such a 5-  
11 percent owner which is described in  
12 section 267(b) or 707(b)(1).

13 “(C) TRADE OR BUSINESS.—No amount  
14 shall be taken into account under paragraph (1)  
15 unless it is incurred in the active conduct of a  
16 trade or business by the taxpayer.

17 “(c) ELIGIBLE SMALL EMPLOYER.—For purposes of  
18 this section—

19 “(1) IN GENERAL.—A taxpayer shall be treated  
20 as an eligible small employer for any taxable year if  
21 the average annual gross receipts of the taxpayer for  
22 the 3-taxable year period ending with the preceding  
23 taxable year are \$10,000,000 or less.

24 “(2) SPECIAL RULES.—Section 448(c)(3) shall  
25 apply for purposes of this subsection.

1       “(d) DEFINITIONS AND SPECIAL RULES.—For pur-  
2 poses of this section—

3           “(1) DEFINITIONS.—The terms ‘employee’ and  
4       ‘employer’ have the meanings given such terms by  
5       paragraphs (2) and (3) of section 127(c), respec-  
6       tively.

7           “(2) AGGREGATION.—

8           “(A) IN GENERAL.—All persons treated as  
9       a single employer under subsection (a) or (b) of  
10      section 52 or subsection (m) or (o) of section  
11      414 shall be treated as a single employer.

12          “(B) ALLOCATION OF CREDIT.—The credit  
13      (if any) determined under this section with re-  
14      spect to each person described in subparagraph  
15      (A) shall be its proportionate share of the quali-  
16      fied educational assistance expenses giving rise  
17      to such credit.

18          “(3) SHORT TAXABLE YEARS.—For any taxable  
19      year having less than 12 months, the credit deter-  
20      mined under this section shall be multiplied by a  
21      fraction, the numerator of which is the number of  
22      days in the taxable year and the denominator of  
23      which is 365.



1           “(4) DISALLOWANCE OF DEDUCTION.—For dis-  
 2           allowance of deduction for expenses for which credit  
 3           allowable, see section 280C(d).

4           “(e) TERMINATION.—This section shall not apply to  
 5           qualified educational assistance expenses incurred in tax-  
 6           able years beginning after December 31, 2000.”

7           (b) DISALLOWANCE OF DEDUCTIONS.—Section 280C  
 8           (relating to certain expenses for which credits are allow-  
 9           able) is amended by adding at the end the following new  
 10          subsection:

11          “(d) CREDIT FOR SMALL BUSINESS EDUCATIONAL  
 12          ASSISTANCE EXPENSES.—

13               “(1) IN GENERAL.—No deduction shall be al-  
 14               lowed for that portion of the qualified educational  
 15               assistance expenses (as defined in section 45D(b))  
 16               otherwise allowable as a deduction for the taxable  
 17               year which is equal to the amount of the credit de-  
 18               termined for such taxable year under section 45D.

19               “(2) ELECTION OF REDUCED CREDIT.—

20                   “(A) IN GENERAL.—In the case of any  
 21                   taxable year for which an election is made  
 22                   under this paragraph—

23                               “(i) paragraph (1) shall not apply,  
 24                               and

1                   “(ii) the amount of the credit under  
2                   section 45D(a) shall be the amount deter-  
3                   mined under subparagraph (B).

4                   “(B) AMOUNT OF REDUCED CREDIT.—The  
5                   amount of the credit determined under this sub-  
6                   paragraph for any taxable year shall be the  
7                   amount equal to the excess of—

8                   “(i) the amount of credit determined  
9                   under section 45D(a) without regard to  
10                  this paragraph, over

11                  “(ii) the product of—

12                   “(I) the amount described in  
13                   clause (i), and

14                   “(II) the maximum rate of tax  
15                   under section 11(b)(1).

16                  “(C) ELECTION.—An election under this  
17                  paragraph for any taxable year shall be made  
18                  not later than the time for filing the return of  
19                  tax for such year (including extensions), shall  
20                  be made on such return, and shall be made in  
21                  such manner as the Secretary may prescribe.  
22                  Such an election, once made, shall be irrev-  
23                  ocable.

1           “(3) CONTROLLED GROUPS.—Paragraph (3) of  
2           subsection (b) shall apply for purposes of this sub-  
3           section.”

4           (c) GENERAL BUSINESS CREDIT.—Subsection (b) of  
5           section 38 (relating to general business credit) is amended  
6           by striking “plus” at the end of paragraph (11), by strik-  
7           ing the period at the end of paragraph (12) and inserting  
8           “, plus”, and by adding at the end the following new para-  
9           graph:

10           “(13) the small business educational assistance  
11           credit determined under section 45D(a).”

12           (d) CONFORMING AMENDMENTS.—

13           (1) NO CARRYBACK.—Subsection (d) of section  
14           39 (relating to carryback and carryforward of un-  
15           used credits) is amended by adding at the end the  
16           following new paragraph:

17           “(8) NO CARRYBACK OF SECTION 45D CREDIT  
18           BEFORE ENACTMENT.—No portion of the unused  
19           business credit for any taxable year which is attrib-  
20           utable to the credit determined under section 45D  
21           may be carried back to a taxable year ending before  
22           the date of the enactment of section 45D.”

23           (2) The table of sections for Subpart D of such  
24           part IV is amended by adding at the end the follow-  
25           ing new item:

          “Sec. 45D. Small business educational assistance credit.”

1 (e) EFFECTIVE DATE.—The amendments made by  
 2 this section shall apply to education and training fur-  
 3 nished in taxable years beginning after December 31,  
 4 1997.

## 5 TITLE II—STUDENT FINANCIAL AID

### 6 PROVISIONS

#### 7 SHORT TITLE; REFERENCES

8 SEC. 201. (a) SHORT TITLE.—This title may be cited  
 9 as the “Student Financial Aid Improvements Act of  
 10 1997”.

11 (b) REFERENCES.—References in this title to “the  
 12 Act” shall refer to the Higher Education Act of 1965 (20  
 13 U.S.C. 1001 et seq.).

### 14 PART A—PELL GRANTS

#### 15 PELL GRANT MAXIMUM AWARD

16 SEC. 211. Section 401(b)(2)(A) of the Act is amend-  
 17 ed by adding at the end thereof the following: “Except  
 18 as otherwise provided in this section, in no case shall the  
 19 maximum basic grant be less than \$3,000.”.

### 20 PART B—STUDENT LOAN PROVISIONS

#### 21 MANAGEMENT AND RECOVERY OF RESERVES

22 SEC. 221. (a) Section 422 of the Act is amended—  
 23 (1) by amending subsection (g)(1) to read as  
 24 follows:

1           “(1) AUTHORITY TO RECOVER FUNDS.—(A)

2       Notwithstanding any other provision of law, the re-  
3       serve funds of the guaranty agencies, and any assets  
4       purchased or developed with such reserve funds, re-  
5       gardless of who holds or controls the reserves or as-  
6       sets, shall remain the property of the United States.

7           “(B) The Secretary may direct the guaranty  
8       agency to require the return, to the guaranty agency  
9       or to the Secretary, of any reserve funds or assets  
10      held by, or under the control of, any other entity,  
11      that the Secretary determines are required—

12           “(i) to pay the program expenses and con-  
13      tingent liabilities of the guaranty agency;

14           “(ii) to satisfy the guaranty agency’s re-  
15      quirements under subsection (h); or

16           “(iii) for the orderly termination of the  
17      guaranty agency’s operations and the liquida-  
18      tion of its assets.

19           “(C) The Secretary may direct a guaranty  
20      agency, or such agency’s officers or directors, to  
21      cease any activity involving expenditure, use, or  
22      transfer of the guaranty agency’s reserve funds or  
23      assets that the Secretary determines is a  
24      misapplication, misuse, or improper expenditure of  
25      such funds or assets.”; and

1           (2) by adding after subsection (g) the following  
2       new subsections:

3       “(h) RECALL OF RESERVES IN FISCAL YEARS 1997  
4 THROUGH 2002; LIMITATIONS ON USE OF RESERVE  
5 FUNDS AND ASSETS.—(1)(A) Notwithstanding any other  
6 provision of law, the Secretary shall, except as otherwise  
7 provided in this subsection, recall from the reserve funds  
8 held by guaranty agencies (which for purposes of this sub-  
9 section shall include any reserve funds held by, or under  
10 the control of, any other entity) not less than—

11           “(i) \$731,000,000 in fiscal year 1998;

12           “(ii) \$127,000,000 in fiscal year 1999;

13           “(iii) \$186,000,000 in each of the fiscal years  
14       2000 and 2001; and

15           “(iv) \$1,271,000,000 in fiscal year 2002.

16       “(B) Funds returned to the Secretary under this sub-  
17 section shall be deposited in the Treasury.

18       “(C) The Secretary shall require each guaranty agen-  
19 cy to return reserve funds under subparagraph (A) based  
20 on its proportionate share, as determined by the Sec-  
21 retary, of all reserve funds held by guaranty agencies as  
22 of September 30, 1996.

23       “(2)(A) Within 45 days of enactment of this sub-  
24 section, all reserve funds held by a guaranty agency that  
25 have not yet been recalled by the Secretary under para-

1 graph (1) shall be transferred by the guaranty agency to  
2 a restricted account (of a type specified by the Secretary)  
3 established by the guaranty agency, and be invested in  
4 United States Government securities specified by the Sec-  
5 retary. The manner and timeframe in which reserve funds  
6 so invested are recalled shall be specified by the Secretary,  
7 consistent with the requirements of this subsection. Ex-  
8 cept as described in subparagraph (B), the guaranty agen-  
9 cy shall not use the reserve funds in such account, which  
10 shall include the earnings thereon, for any purpose with-  
11 out the express permission of the Secretary.

12       “(B)(i) In order to assist guaranty agencies in meet-  
13 ing program expenses, the Secretary shall permit the use  
14 of not more than an aggregate of \$350,000,000 of the  
15 reserve funds held in the restricted accounts described in  
16 subparagraph (A) by guaranty agencies with agreements  
17 under section 428(c), as working capital to be used for  
18 such purposes as the Secretary may specify. The Secretary  
19 shall specify the amount of reserve funds in each guaranty  
20 agency’s restricted account that may be used as working  
21 capital, based on the guaranty agency’s proportionate  
22 share of all borrower accounts outstanding on September  
23 30, 1996. The guaranty agency shall repay such amount  
24 to its restricted account (or returned to the Treasury, if  
25 so directed by the Secretary) by no later than September

1 30, 2002, or the date on which such agency’s agreement  
 2 under section 428(c) ends (through resignation, expira-  
 3 tion, or termination), whichever is earlier.

4 “(ii) The guaranty agency may use the earnings from  
 5 its restricted account for fiscal year 1998 to assist in  
 6 meeting its operational expenses for such year.

7 “(C) Non-liquid reserve fund assets, such as build-  
 8 ings and equipment purchased or developed by the guar-  
 9 anty agency with reserve funds, and any liquid assets re-  
 10 maining in a guaranty agency’s restricted account after  
 11 the recalls in paragraph (1)(A), shall—

12 “(i) remain the property of the United States;

13 “(ii) be used only for such purposes as the Sec-  
 14 retary determines are appropriate; and

15 “(iii) be subject to recall by the Secretary no  
 16 later than the date on which such agency’s agree-  
 17 ment under section 428(c) ends (through resigna-  
 18 tion, expiration, or termination, as the case may  
 19 be).”.

#### 20 REPAYMENT TERMS

21 SEC. 222. (a) Section 427 of the Act is amended—

22 (1) in subsection (a)(2)—

23 (A) in subparagraph (B), in the matter  
 24 preceding clause (i), by striking “over a period”  
 25 through “nor more than 10 years” and insert-



1 ing “in accordance with the repayment plan se-  
 2 lected under subsection (d),”;

3 (B) in subparagraph (C), at the end of the  
 4 subparagraph, by striking out “the 10-year pe-  
 5 riod described in subparagraph (B);” and in-  
 6 serting the following: “the length of the repay-  
 7 ment period under a repayment plan described  
 8 in subsection (d),”;

9 (C) by striking subparagraph (F);

10 (D) by redesignating subparagraphs (G),  
 11 (H), and (I) as subparagraphs (F), (G), and  
 12 (H), respectively; and

13 (E) in subparagraph (G) (as redesignated  
 14 by subparagraph (D)), by striking “the option”  
 15 through the end of the subparagraph and in-  
 16 serting “the repayment options described in  
 17 subsection (d); and”;

18 (2) in subsection (c), by striking “in subsection  
 19 (a)(2)(H),” and inserting the following: “by a repay-  
 20 ment plan selected by the borrower under subpara-  
 21 graph (C) or (D) of subsection (d)(1),”; and

22 (3) by adding after subsection (c) the following  
 23 new subsection:

24 “(d) REPAYMENT PLANS.—

1           (1) DESIGN AND SELECTION.—In accordance  
2       with regulations of the Secretary, the lender shall  
3       offer a borrower of a loan made under this part the  
4       plans described in this subsection for repayment of  
5       such loan, including principal and interest thereon.  
6       No plan may require a borrower to repay a loan in  
7       less than five years. The borrower may choose  
8       from—

9           “(A) a standard repayment plan, with a  
10       fixed annual repayment amount paid over a  
11       fixed period of time, not to exceed ten years;

12          “(B) an extended repayment plan, with a  
13       fixed annual repayment amount paid over an  
14       extended period of time, not to exceed 30 years,  
15       except that the borrower shall repay annually a  
16       minimum amount determined in accordance  
17       with subsection (c);

18          “(C) a graduated repayment plan, with an-  
19       nual repayment amounts established at 2 or  
20       more graduated levels and paid over an ex-  
21       tended period of time, not to exceed 30 years,  
22       except that the borrower’s scheduled payments  
23       shall not be less than 50 percent, nor more  
24       than 150 percent, of what the amortized pay-  
25       ment on the amount owed would be if the loan

1           were repaid under the standard repayment  
2           plan; and

3           “(D) an income-sensitive repayment plan,  
4           with income-sensitive repayment amounts paid  
5           over a fixed period of time, not to exceed ten  
6           years.

7           “(2) LENDER SELECTION OF OPTION IF BOR-  
8           ROWER DOES NOT SELECT.—If a borrower of a loan  
9           made under this part does not select a repayment  
10          plan described in paragraph (1), the lender shall  
11          provide the borrower with a repayment plan de-  
12          scribed in paragraph (1)(A).

13          “(3) CHANGES IN SELECTIONS.—The borrower  
14          of a loan made under this part may change the bor-  
15          rower’s selection of a repayment plan under para-  
16          graph (1), or the lender’s selection of a plan for the  
17          borrower under paragraph (2), as the case may be,  
18          under such conditions as may be prescribed by the  
19          Secretary in regulation.

20          “(4) ACCELERATION PERMITTED.—Under any  
21          of the plans described in this subsection, the bor-  
22          rower shall be entitled to accelerate, without penalty,  
23          repayment on the borrower’s loans under this part.”.

24          (b) Section 428(b) of the Act is amended—

25                 (1) in paragraph (1)—

1 (A) in subparagraph (D), by striking  
2 clauses (i) and (ii) and the clause designation  
3 “(iii)”;

4 (B) in subparagraph (E)—

5 (i) in clause (i)—

6 (I) by striking “or section  
7 428A,” and inserting “or section  
8 428H,”; and

9 (II) by striking “the option”  
10 through the end of the clause and in-  
11 serting “the repayment options de-  
12 scribed in paragraph (9); and”; and

13 (ii) in clause (ii)—

14 (I) by striking “over a period”  
15 through “nor more than 10 years”  
16 and inserting “in accordance with the  
17 repayment plan selected under para-  
18 graph (9), and”; and

19 (II) by striking “of this sub-  
20 section;” at the end of clause (ii) and  
21 inserting a semicolon; and

22 (C) in subparagraph (L)(i), by inserting  
23 after the clause designation the following: “ex-  
24 cept as otherwise provided by a repayment plan

1           selected by the borrower under paragraph  
2           (9)(A)(iii) or (iv),”; and  
3           (2) by adding after paragraph (8) the following  
4   new paragraph:

5           “(9) REPAYMENT PLANS.—

6                 (A) DESIGN AND SELECTION.—In accord-  
7           ance with regulations of the Secretary, the lend-  
8           er shall offer a borrower of a loan made under  
9           this part the plans described in this subpara-  
10          graph for repayment of such loan, including  
11          principal and interest thereon. No plan may re-  
12          quire a borrower to repay a loan in less than  
13          five years. The borrower may choose from—

14                 “(i) a standard repayment plan, with  
15                 a fixed annual repayment amount paid  
16                 over a fixed period of time, not to exceed  
17                 ten years;

18                 “(ii) an extended repayment plan,  
19                 with a fixed annual repayment amount  
20                 paid over an extended period of time, not  
21                 to exceed 30 years, except that the bor-  
22                 rower shall repay annually a minimum  
23                 amount determined in accordance with  
24                 paragraph (2)(L);

1           “(iii) a graduated repayment plan,  
2           with annual repayment amounts estab-  
3           lished at 2 or more graduated levels and  
4           paid over an extended period of time, not  
5           to exceed 30 years, except that the borrow-  
6           er’s scheduled payments shall not be less  
7           than 50 percent, nor more than 150 per-  
8           cent, of what the amortized payment on  
9           the amount owed would be if the loan were  
10          repaid under the standard repayment plan;  
11          and

12          “(iv) an income-sensitive repayment  
13          plan, with income-sensitive repayment  
14          amounts paid over a fixed period of time,  
15          not to exceed ten years.

16          “(B) LENDER SELECTION OF OPTION IF  
17          BORROWER DOES NOT SELECT.—If a borrower  
18          of a loan made under this part does not select  
19          a repayment plan described in subparagraph  
20          (A), the lender shall provide the borrower with  
21          a repayment plan described in subparagraph  
22          (A)(i).

23          “(C) CHANGES IN SELECTIONS.—The bor-  
24          rower of a loan made under this part may  
25          change the borrower’s selection of a repayment

plan under subparagraph (A), or the lender's selection of a plan for the borrower under subparagraph (B), as the case may be, under such conditions as may be prescribed by the Secretary in regulation.

“(D) ACCELERATION PERMITTED.—Under any of the plans described in this paragraph, the borrower shall be entitled to accelerate, without penalty, repayment on the borrower's loans under this part.

“(E) COMPARABLE FFEL AND DIRECT LOAN REPAYMENT PLANS.—The Secretary shall ensure that the repayment plans offered to borrowers under this part are comparable, to the extent practicable and not otherwise provided in statute, to the repayment plans offered under part D.”.

(c) Section 428C of the Act is amended—

(1) in subsection (b)(3)(F), by striking “alternative”; and

(2) in subsection (c)—

(A) by amending paragraph (2) to read as follows:

“(2) REPAYMENT PLANS.—

1           (A) DESIGN AND SELECTION.—In accord-  
2           ance with regulations of the Secretary, the lend-  
3           er shall offer a borrower of a loan made under  
4           this section the plans described in this para-  
5           graph for repayment of such loan, including  
6           principal and interest thereon. No plan may re-  
7           quire a borrower to repay a loan in less than  
8           five years. The borrower may choose from—

9                   “(i) a standard repayment plan, with  
10                  a fixed annual repayment amount paid  
11                  over a fixed period of time, not to exceed  
12                  ten years;

13                  “(ii) an extended repayment plan,  
14                  with a fixed annual repayment amount  
15                  paid over an extended period of time, not  
16                  to exceed 30 years, except that the bor-  
17                  rower shall repay annually a minimum  
18                  amount determined in accordance with  
19                  paragraph (3);

20                  “(iii) a graduated repayment plan,  
21                  with annual repayment amounts estab-  
22                  lished at 2 or more graduated levels and  
23                  paid over an extended period of time, not  
24                  to exceed 30 years, except that the borrow-  
25                  er’s scheduled payments shall not be less



1           than 50 percent, nor more than 150 per-  
 2           cent, of what the amortized payment on  
 3           the amount owed would be if the loan were  
 4           repaid under the standard repayment plan;  
 5           and

6           “(iv) an income-sensitive repayment  
 7           plan, with income-sensitive repayment  
 8           amounts paid over a fixed period of time,  
 9           not to exceed ten years.

10          “(B) LENDER SELECTION OF OPTION IF  
 11          BORROWER DOES NOT SELECT.—If a borrower  
 12          of a loan made under this section does not se-  
 13          lect a repayment plan described in subpara-  
 14          graph (A), the lender shall provide the borrower  
 15          with a repayment plan described in subpara-  
 16          graph (A)(i).

17          “(C) CHANGES IN SELECTIONS.—The bor-  
 18          rower of a loan made under this section may  
 19          change the borrower’s selection of a repayment  
 20          plan under subparagraph (A), or the lender’s  
 21          selection of a plan for the borrower under sub-  
 22          paragraph (B), as the case may be, under such  
 23          conditions as may be prescribed by the Sec-  
 24          retary in regulation.”.

25          (d) Section 455(d) of the Act is amended—

1 (1) in paragraph (1)—

2 (A) in subparagraph (B), by inserting after  
3 “an extended period of time,” the following:  
4 “not to exceed 30 years,”; and

5 (B) in subparagraph (C), by striking “a  
6 fixed or extended period of time,” and inserting  
7 the following: “an extended period of time, not  
8 to exceed 30 years,”; and

9 (2) in paragraph (2), by striking “subpara-  
10 graph (A), (B), or (C) of paragraph (1).” and in-  
11 serting “paragraph (1)(A).”.

12 INTEREST RATES

13 SEC. 223. (a) Section 427A of the Act is amended—

14 (1) in subsection (g)(2)—

15 (A) by inserting after the paragraph head-  
16 ing the subparagraph designation “(A)”;

17 (B) by redesignating subparagraphs (A)  
18 and (B) as clauses (i) and (ii), respectively;

19 (C) by striking “paragraph (1),” and in-  
20 serting “paragraph (1), and except as provided  
21 in subparagraph (B),”; and

22 (D) by adding after subparagraph (A) (as  
23 redesignated by subparagraph (A)) the follow-  
24 ing new subparagraph:

25 “(B) In the case of loans made or insured  
26 under section 428 or 428H for which the first

1           disbursement is made on or after October 1,  
 2           1997, for purposes of paragraph (1), the rate  
 3           determined under this paragraph shall, during  
 4           any 12-month period beginning on July 1 and  
 5           ending on June 30, be determined on the pre-  
 6           ceding June 1 and be equal to the bond equiva-  
 7           lent rate of the securities with a comparable  
 8           maturity, as established by the Secretary, ex-  
 9           cept that such rate shall not exceed 8.25 per-  
 10          cent.”;

11          (2) in subsection (h)—

12           (A) in the heading thereof, by striking  
 13           “JULY 1, 1998.—” and inserting “OCTOBER 1,  
 14           1997.—”;

15           (B) in paragraph (1)—

16           (i) by striking “(f), and (g)” and in-  
 17           serting “and (f),”; and

18           (ii) by striking “July 1, 1998,” and  
 19           inserting “October 1, 1997,”; and

20           (C) in paragraph (2)—

21           (i) in the heading, by striking “JULY  
 22           1, 1998.—” and inserting “OCTOBER 1,  
 23           1997.—”; and

24           (ii) by striking “July 1, 1998,” and  
 25           inserting “October 1, 1997,”; and

1           (3) in subsection (i)(7)(B), by adding at the  
 2           end the following: “Notwithstanding any other provi-  
 3           sion of law, the interest rate determined under this  
 4           subparagraph shall be used solely to determine the  
 5           rebate of excess interest required by this paragraph  
 6           and shall not be used to calculate or pay special al-  
 7           lowances under section 438”.

8           (b) Section 455(b) of the Act is amended—

9           (1) in paragraph (2)(B)—

10           (A) by redesignating clauses (i) and (ii) as  
 11           subclauses (I) and (II), respectively;

12           (B) by inserting after the subparagraph  
 13           heading the clause designation “(i)”;

14           (C) by striking “subparagraph (A),” and  
 15           inserting “subparagraph (A) and except as pro-  
 16           vided in clause (ii),”; and

17           (D) by adding after clause (i) (as redesign-  
 18           ated by subparagraph (B)) the following new  
 19           clause:

20           “(ii) In the case of Federal Direct  
 21           Stafford/Ford Loans or Federal Direct  
 22           Unsubsidized Stafford/Ford Loans for  
 23           which the first disbursement is made on or  
 24           after October 1, 1997, for purposes of sub-  
 25           paragraph (A), the rate determined under

1           this subparagraph shall, during any 12-  
 2           month period beginning on July 1 and  
 3           ending on June 30, be determined on the  
 4           preceding June 1 and be equal to the bond  
 5           equivalent rate of the securities with a  
 6           comparable maturity, as established by the  
 7           Secretary, except that such rate shall not  
 8           exceed 8.25 percent.”;

9           (2) in paragraph (3)—

10           (A) by striking “and (2),” and inserting “,  
 11           and except as provided in paragraph (2),”; and

12           (B) by striking “made on or after July 1,  
 13           1998,” and inserting “for which the first dis-  
 14           bursement is made on or after October 1,  
 15           1997,”; and

16           (3) in paragraph (4)(B), by striking “July 1,  
 17           1998,” and inserting “October 1, 1997.”.

#### 18           LENDER AND HOLDER RISK SHARING

19           SEC. 224. Section 428(b)(1)(G) of the Act is amend-  
 20           ed by striking “not less than 98 percent” and inserting  
 21           “95 percent”.

#### 22           FEES AND INSURANCE PREMIUMS

23           SEC. 225. (a) Section 428(b)(1)(H) of the Act is  
 24           amended—

25           (1) by inserting the clause designation “(i)” fol-  
 26           lowing the subparagraph designation;

1           (2) by striking “the loan,” and inserting “any  
2       loan made under section 428 or 428B before July 1,  
3       1998,”; and

4           (3) after clause (i) (as redesignated by para-  
5       graph (1)), by adding “and” and the following new  
6       clause:

7                       “(ii) provides that no insurance pre-  
8                       miums shall be charged to the borrower of  
9                       any loan made under section 428 or 428B  
10                      on or after July 1, 1998;”.

11       (b) Section 428H(h) of the Act is amended—

12           (1) by inserting the paragraph designation  
13       “(1)” following the subsection heading;

14           (2) by striking “under this section” and insert-  
15       ing “of a loan made under this section made before  
16       July 1, 1998”; and

17           (3) by adding at the end of paragraph (1) (as  
18       redesignated by paragraph (1)) the following new  
19       paragraph:

20                       “(2) No insurance premium may be charged to  
21                       the borrower on any loan made under this section  
22                       made on or after July 1, 1998.”.

23       (d) Section 438(c) of the Act is amended—

24           (1) in paragraph (2), by striking “paragraph  
25       (6)” and inserting “paragraphs (6) and (8)”; and

1           (2) by adding after paragraph (7) the following  
2       new paragraph:

3           “(8) ORIGINATION FEE ON SUBSIDIZED LOANS  
4       ON OR AFTER JULY 1, 1998.—In the case of any loan  
5       made or insured under section 428 on or after July  
6       1, 1998, paragraph (2) shall be applied by substitut-  
7       ing ‘2.0 percent’ for ‘3.0 percent’.”.

8       (e) Section 455(c) of the Act is amended—

9           (1) by striking “The Secretary” and inserting  
10       “(1) For loans made under this part before July 1,  
11       1998, the Secretary”;

12          (2) by striking “of a loan made under this  
13       part”; and

14          (3) by adding at the end thereof the following  
15       new paragraph:

16           “(2) For loans made under this part on or after  
17       July 1, 1998, the Secretary shall charge the bor-  
18       rower an origination fee of—

19           “(A) 2.0 percent of the principal amount  
20       of the loan, in the case of Federal Direct Staf-  
21       ford/Ford Loans; or

22           “(B) 3.0 percent of the principal amount  
23       of the loan, in the case of Federal Direct  
24       Unsubsidized Stafford/Ford Loans or Federal  
25       Direct PLUS Loans.”.

## 1                   FUNCTIONS OF GUARANTY AGENCIES

2           SEC. 226. (a) Section 428 of the Act is further  
3 amended—

4                   (1) in subsection (a)—

5                           (A) in paragraph (1)(B)—

6                                   (i) in the matter preceding clause (i),  
7                                   by striking “which is insured” and insert-  
8                                   ing “which, before October 1, 1997, is”;  
9                                   and

10                                  (ii) in clause (ii), by inserting “as in  
11                                  effect the day before the day of enactment  
12                                  of this section,” after “subsection (b),”;  
13                                  and

14                           (B) in paragraph (3)—

15                                   (i) by striking subparagraph (B); and

16                                   (ii) in subparagraph (A)—

17   (I) in clause (ii), by striking  
18   “under any” through the end of the  
19   clause and inserting a period;

20   (II) by striking the subparagraph  
21   designation “(A)”;

22   (III) by redesignating clauses (i)  
23   and (ii) as subparagraphs (A) and  
24   (B), respectively; and



1 (IV) by redesignating subclauses  
 2 (I) and (II) as clauses (i) and (ii), re-  
 3 spectively;

4 (2) in subsection (b)—

5 (A) by amending the heading to read  
 6 as follows: “REQUIREMENTS TO QUALIFY  
 7 LOANS FOR INSURANCE AND INTEREST SUB-  
 8 SIDIES.—”;

9 (B) in paragraph (1)—

10 (i) by amending the heading to read  
 11 as follows: “REQUIREMENTS.—”;

12 (ii) by amending the matter preceding  
 13 subparagraph (A) to read as follows: “A  
 14 loan by an eligible lender shall be insurable  
 15 by the Secretary, and students who receive  
 16 such loans shall be entitled to have made  
 17 on their behalf the payments provided for  
 18 in subsection (a), under a program of stu-  
 19 dent loan insurance that—”;

20 (iii) by amending subparagraph (K) to  
 21 read as follows:

22 “(K) provides that the holder of any such  
 23 loan will be required to submit to the Secretary,  
 24 at such time or times and in such manner as  
 25 the Secretary may prescribe, statements con-

1           taining such information as may be required by  
2           regulation for the purpose of enabling the Sec-  
3           retary to determine the amount of the payment  
4           which must be made with respect to that loan;”;

5                       (iv) by amending subparagraph (O) to  
6           read as follows:

7                       “(O) provides that, if the sale, assignment,  
8           or other transfer of a loan made under this part  
9           to another holder will result in a change in the  
10          identity of the party to whom the borrower  
11          must send subsequent payments or direct any  
12          communications concerning the loans, then—

13                      “(i) the transferor and the transferee  
14           shall be required, not later than 45 days  
15           from the date the transferee acquires a le-  
16           gally enforceable right to receive payment  
17           from the borrower on such loan, either  
18           jointly or separately to provide a notice to  
19           the borrower of—

20                      “(I) the sale, assignment, or  
21           other transfer;

22                      “(II) the identity of the trans-  
23           feree;

24                      “(III) the name and address of  
25           the party to whom subsequent pay-

1                   ments or communications must be  
2                   sent; and

3                   “(IV) the telephone numbers of  
4                   both the transferor and the trans-  
5                   feree; and

6                   “(ii) the transferee shall be required  
7                   to notify the Secretary, and, upon the re-  
8                   quest of an institution of higher education,  
9                   the Secretary shall notify the last such in-  
10                  stitution the student attended prior to the  
11                  beginning of the repayment period of any  
12                  loan made under this part, of—

13                  “(I) any sale, assignment, or  
14                  other transfer of the loan; and

15                  “(II) the address and telephone  
16                  number by which contact may be  
17                  made with the new holder concerning  
18                  repayment of the loan;

19                  except that this subparagraph shall apply  
20                  only if the borrower is in the grace period  
21                  described in section 427(a)(2)(B) or  
22                  428(b)(7) or is in repayment status.”;

23                  (v) in subparagraph (Q), by striking  
24                  “guarantee” and “428A” and inserting  
25                  “insurance” and “428H”, respectively;

1 (vi) by amending subparagraph (R) to  
2 read as follows:

3 “(R) provides for the making of such re-  
4 ports, in such form and containing such infor-  
5 mation, including financial information, as the  
6 Secretary may reasonably require to carry out  
7 the Secretary’s functions under this part and  
8 protect the financial interest of the United  
9 States, and for keeping such records and for af-  
10 fording such access thereto as the Secretary  
11 may find necessary to ensure the correctness  
12 and verification of such reports;”;

13 (vii) by amending subparagraph (S) to  
14 read as follows:

15 “(S) provides that a lender shall pay a de-  
16 fault prevention fee in accordance with sub-  
17 section (g);”

18 (viii) in subparagraph (T)—

19 (I) in clause (i), by inserting “,  
20 by the guaranty agency, in accordance  
21 with regulations prescribed by the  
22 Secretary,” after “limitation”; and

23 (II) in clause (ii)—

24 (aa) in the matter preceding  
25 subclause (I), by inserting “, in

1 accordance with regulations pre-  
2 scribed by the Secretary,” after  
3 “institution”;

4 (bb) by striking subclauses  
5 (I) and (II); and

6 (cc) redesignating sub-  
7 clauses (III), (IV), and (V) as  
8 subclauses (I), (II), and (III), re-  
9 spectively;

10 (ix) by amending subparagraph (U) to  
11 read as follows:

12 “(U) provides—

13 “(i) for such additional criteria con-  
14 cerning the eligibility of lenders described  
15 in section 435(d)(1) as may be permitted  
16 by the Secretary; and

17 “(ii) an assurance that the guaranty  
18 agency will report to the Secretary con-  
19 cerning changes in criteria under clause  
20 (i), including any procedures in effect  
21 under such program to take emergency ac-  
22 tion, limit, suspend, or terminate lenders;  
23 and”;

24 (x) by striking subparagraphs (V),  
25 (W), and (X);

1 (C) by amending paragraph (2) to read as  
2 follows:

3 “(2) SKIP-TRACING REQUIREMENT.—In the  
4 case of a default claim based on an inability to lo-  
5 cate the borrower, a lender shall certify to the Sec-  
6 retary, at the time of submission of the default  
7 claim, that diligent attempts have been made to lo-  
8 cate the borrower through the use of reasonable  
9 skip-tracing techniques in accordance with regula-  
10 tions prescribed by the Secretary.”;

11 (D) in paragraph (3)(B), by striking the  
12 parenthetical through the end of the subpara-  
13 graph and inserting a period; and

14 (E) by striking out paragraph (5) and in-  
15 serting in lieu thereof the following new para-  
16 graph:

17 “(5) COMPLIANCE AUDITS.—(A) Except as pro-  
18 vided in subparagraph (B) or by the Single Audit  
19 Act Amendments of 1996, an eligible lender that  
20 originates or holds more than \$5,000,000 in loans  
21 made under this title during an annual audit period  
22 shall submit to the Secretary a compliance audit for  
23 that audit period which is conducted by a qualified,  
24 independent organization or person in accordance  
25 with the Government Auditing Standards issued by

1 the Comptroller General, and the regulations of the  
2 Secretary.

3 “(B) The Secretary may permit a lender to sub-  
4 mit the results of an audit conducted for other pur-  
5 poses if the Secretary determines that such other  
6 audit results provide the same information as re-  
7 quired under subparagraph (A).”;

8 (3) in subsection (c)—

9 (A) by amending the heading to read as  
10 follows: “AGREEMENTS WITH GUARANTY  
11 AGENCIES.—”;

12 (B) in paragraph (3)—

13 (i) in the matter preceding subpara-  
14 graph (A), by striking “A guaranty agree-  
15 ment” and inserting “An agreement be-  
16 tween the Secretary and a guaranty agen-  
17 cy”;

18 (ii) in the flush left language at the  
19 end of the paragraph, by striking “Guar-  
20 anty agencies” and inserting “The Sec-  
21 retary”; and

22 (iii) by redesignating paragraph (3) as  
23 paragraph (11);

24 (C) by striking paragraphs (1), (2), (4),  
25 and (5);

1 (D) by inserting after the subsection head-  
2 ing the following new paragraphs:

3 “(1) AUTHORITY TO ENTER INTO AGREE-  
4 MENTS.—(A)(i) The Secretary may enter into an  
5 agreement with a guaranty agency, under which the  
6 Secretary shall insure loans made under this section  
7 through the guaranty agency as the agent of the  
8 Secretary.

9 “(ii) Any guaranty agency that had an agree-  
10 ment with the Secretary under section 428(b) as of  
11 the day before the date of enactment of the Student  
12 Financial Aid Improvements Act of 1997 may enter  
13 into an initial agreement with the Secretary under  
14 this subsection.

15 “(iii) An agreement under this subsection shall  
16 be five years in duration, and may be renewed by  
17 the Secretary for successive five-year periods.

18 “(iv) The Secretary may terminate the agree-  
19 ment prior to its expiration in accordance with para-  
20 graph (9).

21 “(2) EFFECT ON PRIOR GUARANTY AGREE-  
22 MENTS AND LOAN INSURANCE BY GUARANTY AGEN-  
23 CIES.—(A) All guaranty agreements made under  
24 this subsection as it was in effect on the day before  
25 the date of enactment of the Student Financial Aid



1       Improvements Act of 1997 shall terminate not later  
2       than 180 days after the date of enactment of that  
3       Act.

4               “(B) Notwithstanding any other provision of  
5       law—

6                       “(i) to the extent that a guaranty agency  
7       had insured loans under this part, loan insur-  
8       ance by such guaranty agency that is outstand-  
9       ing as of the date of the termination under sub-  
10      paragraph (A) shall be replaced on such date by  
11      loan insurance issued by the Secretary, and the  
12      guaranty agency shall be relieved of any further  
13      liability thereon;

14                      “(ii) the Secretary’s liability for any out-  
15      standing liabilities of a guaranty agency (other  
16      than outstanding loan insurance under this  
17      part), shall not exceed the fair market value of  
18      the unrestricted funds of the guaranty agency,  
19      which shall consist of—

20                               “(I) all accumulated earnings not oth-  
21      erwise placed in a restricted account in ac-  
22      cordance with section 422(h)(2)(A); and

23                               “(II) any working capital that may be  
24      provided under section 422(h)(2)(B); and

1           “(iii) for the first year after the date of en-  
 2           actment of the Student Financial Aid Improve-  
 3           ments Act of 1997, the Secretary may specify  
 4           such interim administrative measures as the  
 5           Secretary determines to be necessary for the ef-  
 6           ficient transfer of the loan insurance function,  
 7           and to carry out the purposes of this part.

8           “(3) TERMS OF AGREEMENT.—The agreement  
 9           between the Secretary and a guaranty agency shall  
 10          include, but not be limited to—

11           “(A) provisions regarding the responsibil-  
 12          ities of the guaranty agency for—

13           “(i) administering the issuance of in-  
 14          surance on loans made under this section  
 15          on behalf of the Secretary;

16           “(ii) monitoring insurance commit-  
 17          ments made under this section;

18           “(iii) default prevention activities;

19           “(iv) review of default claims made by  
 20          lenders;

21           “(v) payment of default claims;

22           “(vi) collection of defaulted loans;

23           “(vii) adoption of internal systems of  
 24          accounting and auditing that are accept-  
 25          able to the Secretary, and reporting the re-

1           sult thereof to the Secretary on a timely,  
2           accurate, and auditable basis;

3           “(viii) timely and accurate collection  
4           and reporting of such other data as the  
5           Secretary may require to carry out the  
6           purposes of the programs under this title;

7           “(ix) monitoring of institutions and  
8           lenders participating in the program under  
9           this part; and

10           “(x) such other program functions as  
11           the Secretary may require of the guaranty  
12           agency;

13           “(B) provisions regarding the fees the Sec-  
14           retary shall pay to the guaranty agency under  
15           the agreement, and other revenues that the  
16           guaranty agency may receive thereunder, as de-  
17           scribed in paragraphs (4) and (6);

18           “(C) provisions requiring the guaranty  
19           agency to carry out its responsibilities under  
20           the agreement in accordance with paragraph  
21           (5);

22           “(D) provisions regarding the use, in ac-  
23           cordance with paragraph (10), of net revenues  
24           in excess of the guaranty agency’s need for  
25           working capital, as determined after compliance

1 with section 422(h), for such other activities in  
2 support of postsecondary education as may be  
3 agreed to by the Secretary and the guaranty  
4 agency;

5 “(E) provisions regarding such other busi-  
6 nesses, previously purchased or developed with  
7 reserve funds, that relate to the program under  
8 this part and in which the Secretary permits  
9 the guaranty agency to engage (as determined  
10 on a case-by-case basis);

11 “(F) provisions setting forth such adminis-  
12 trative and fiscal procedures as may be nec-  
13 essary to protect the United States from the  
14 risk of unreasonable loss thereunder, and to en-  
15 sure proper and efficient administration of the  
16 loan insurance program;

17 “(G) provisions regarding the submission  
18 of the results of audits of the guaranty agency  
19 that are conducted—

20 “(i) at least annually;

21 “(ii) by a qualified, independent orga-  
22 nization or person in accordance with the  
23 standards established by the Comptroller  
24 General for the audit of governmental or-  
25 ganizations, programs, and functions; and

1                   “(iii) in accordance with the regula-  
2                   tions of the Secretary;

3                   “(H) provisions requiring the making of  
4                   such reports, in such form and containing such  
5                   information, including financial information, as  
6                   the Secretary may reasonably require to carry  
7                   out the Secretary’s functions under this part  
8                   and to protect the Federal fiscal interest, and  
9                   for keeping such records and for affording such  
10                  access thereto as the Secretary may find nec-  
11                  essary or appropriate to ensure the correctness  
12                  and verification of such reports;

13                  “(I) adequate assurances that the guar-  
14                  anty agency will not engage in any pattern or  
15                  practice which may result in a denial of a bor-  
16                  rower’s access to loans under this part because  
17                  of the borrower’s race, sex, color, religion, na-  
18                  tional origin, age, handicapped status, income,  
19                  attendance at a particular eligible institution,  
20                  length of the borrower’s educational program,  
21                  or the borrower’s academic year in school;

22                  “(J) assurances that—

23                         “(i) upon the request of an eligible in-  
24                         stitution, the guaranty agency shall, sub-  
25                         ject to clauses (ii) and (iii), furnish to the

1 institution information with respect to stu-  
2 dents (including the names and addresses  
3 of such students) who received loans made  
4 or insured under this part for attendance  
5 at the eligible institution and for whom  
6 preclaims assistance activities have been  
7 requested under subsection (l);

8 “(ii) the guaranty agency shall require  
9 the payment by the institution of a reason-  
10 able fee (as determined in accordance with  
11 regulations prescribed by the Secretary)  
12 for such information; and

13 “(iii) the institution may use such in-  
14 formation only to remind students of their  
15 obligation to repay student loans and may  
16 not disseminate the information for any  
17 other purpose; and

18 “(K) such other provisions as the Sec-  
19 retary may determine to be necessary to protect  
20 the United States from the risk of unreasonable  
21 loss and to promote the purposes of this part.

22 “(4) FEES AND OTHER REVENUES.—(A)(i) The  
23 Secretary shall pay to a guaranty agency with an  
24 agreement under this subsection the following uni-  
25 form fees:

1           “(I) a one-time issuance fee for each new  
2           loan made under this part that is insured by  
3           the Secretary through the guaranty agency; and

4           “(II) an annual maintenance fee for each  
5           active borrower account.

6           “(ii) The fees described in clause (i) shall be  
7           paid on a quarterly basis, from the funds available  
8           under section 458(a), in such amount as the Sec-  
9           retary determines, for all guaranty agencies with  
10          agreements under this subsection.

11          “(B) A guaranty agency with an agreement  
12          under this subsection also may receive revenues de-  
13          rived from—

14               “(i) a default prevention fee paid by lend-  
15               ers in accordance with subsection (g);

16               “(ii) the collection retention allowance  
17               under paragraph (6);

18               “(iii) the interest earned on working cap-  
19               ital provided under section 422(h);

20               “(iv) such other businesses, previously pur-  
21               chased or developed with reserve funds, that re-  
22               late to the program under this part and in  
23               which the Secretary permits the guaranty agen-  
24               cy to engage (as determined on a case-by-case  
25               basis); and

1                   “(v) such other fees as may be authorized  
2                   under this part.

3                   “(5) PERFORMANCE REQUIREMENTS.—(A) A  
4                   guaranty agency with an agreement under this sub-  
5                   section shall carry out its responsibilities thereunder  
6                   in accordance with such measurable performance-  
7                   based standards as the Secretary may specify, and  
8                   shall submit timely and accurate data to the Sec-  
9                   retary in support of its performance.

10                  “(B) The Secretary shall apply the performance  
11                  standards uniformly to guaranty agencies with  
12                  agreements under this subsection.

13                  “(C) The Secretary shall assess the perform-  
14                  ance of each guaranty agency on the basis of the au-  
15                  dits required under paragraph (3)(G), and shall  
16                  compare such guaranty agency’s performance  
17                  against the performance of other such guaranty  
18                  agencies and publicly disseminate such comparison.

19                  “(D) The Secretary may impose a fine, in ac-  
20                  cordance with the terms of the agreement, on a  
21                  guaranty agency that fails to achieve a specified  
22                  level of performance on one or more performance  
23                  standards. If the guaranty agency’s failure to  
24                  achieve such performance level results in a financial



1       loss to the United States, the guaranty agency shall  
2       indemnify the Secretary for such loss.”;

3               (E) by amending paragraph (6) to read as  
4       follows:

5               “(6) COLLECTION RETENTION ALLOWANCE.—

6       (A) If, after the Secretary has paid a claim on a  
7       loan made under this title, any payments are made  
8       in discharge of the obligation incurred by the bor-  
9       rower with respect to such loan (including any pay-  
10      ments of interest accruing on such loan after the  
11      payment of the default claim by the Secretary),  
12      there shall be paid over to the Secretary that portion  
13      of the payments remaining after the guaranty agen-  
14      cy with which the Secretary has an agreement under  
15      this subsection has deducted from such payments an  
16      amount for costs related to the student loan insur-  
17      ance program that—

18              “(i) shall be specified by the Secretary on  
19      the basis of the Secretary’s review of payments  
20      for similar services in a competitive environ-  
21      ment; and

22              “(ii) in no case shall exceed 18.5 percent  
23      of such payments (subject to subparagraph  
24      (B)).

1           “(B) If, after the Secretary has paid a claim on  
2           a loan made under this title, and the liability on  
3           such loan is discharged by payment of the proceeds  
4           of a consolidation loan under this part or under part  
5           D, the guaranty agency may not deduct the amount  
6           specified in subparagraph (A), but may charge the  
7           borrower an amount specified by the Secretary and  
8           not to exceed 18.5% of the principal amount of the  
9           defaulted loan at the time of consolidation, to defray  
10          the guaranty agency’s collection costs on the de-  
11          faulted loan to be consolidated.”;

12                       (F) by amending paragraph (7) to read as  
13           follows:

14           “(7) SECRETARY AUTHORIZED TO RENEW OR  
15           MAKE ALTERNATE AGREEMENTS.—Notwithstanding  
16           any other provision of law, once the initial agree-  
17           ment with a guaranty agency entered into after the  
18           date of enactment of the Student Financial Aid Im-  
19           provements Act of 1997 has ended (through its expi-  
20           ration, the termination of the guaranty agency  
21           agreement by the Secretary in accordance with para-  
22           graph (9), or the resignation of the guaranty agency,  
23           as the case may be), the Secretary, in his discretion,  
24           may enter into—

1           “(A) another agreement with the guaranty  
2           agency;

3           “(B) an alternate agreement under which  
4           the functions previously performed by the guar-  
5           anty agency shall be performed by another  
6           State or private nonprofit agency with which  
7           the Secretary has an agreement under this sub-  
8           section; or

9           “(C) a contract under section 428E.”;

10           (G) by amending paragraph (9) to read as  
11           follows:

12           “(9) TERMINATION OF GUARANTY AGENCY  
13           AGREEMENTS.—(A) A guaranty agency’s agreement  
14           under this subsection may be ended in advance of its  
15           expiration date in accordance with subparagraph (B)  
16           or (C). If its agreement is so ended, the guaranty  
17           agency shall immediately—

18           “(i) cease to be an agent of the Secretary  
19           for purposes of the program under this part;  
20           and

21           “(ii) surrender all remaining liquid and  
22           non-liquid reserve funds, and assets purchased  
23           or developed with reserve funds, still held by  
24           the guaranty agency (including reserves held  
25           by, or under the control of, any other entity) to

1           the Secretary or the Secretary’s designated  
2           agent.

3           “(B) A guaranty agency’s agreement under this  
4           subsection shall be void, and the Secretary shall im-  
5           mediately so notify such guaranty agency, if—

6                   “(i) the guaranty agency fails to comply in  
7                   a timely manner with the recall of reserve re-  
8                   quirements of section 422(h);

9                   “(ii) the guaranty agency fails to increase  
10                  the amount of funds in its unrestricted account  
11                  (as measured by comparing the amount of  
12                  funds in such account at the beginning and end  
13                  of a year) for each of two years (that may or  
14                  may not be consecutive) in the five year period  
15                  of the agreement under this subsection;

16                  “(iii) any other agreement that the guar-  
17                  anty agency has with the Secretary is termi-  
18                  nated;

19                  “(iv) the guaranty agency becomes insol-  
20                  vent or declares bankruptcy; or

21                  “(v) there is any legal impediment to the  
22                  guaranty agency substantially performing its re-  
23                  sponsibilities under the agreement.

24           “(C) The Secretary shall, after notice and op-  
25           portunity for a hearing, terminate a guaranty agen-

1 cy that has substantially failed to achieve an accept-  
2 able level of performance under its agreement with  
3 the Secretary. A substantial performance failure  
4 under this subparagraph may include the existence  
5 of material internal control weaknesses relating to  
6 data quality in the guaranty agency's audits for each  
7 of two years (that may or may not be consecutive)  
8 in the five year period of the agreement under this  
9 subsection.

10 “(D) Notwithstanding any other provision of  
11 Federal or State law, if the Secretary has termi-  
12 nated or is seeking to terminate a guaranty agency's  
13 agreement in advance of its expiration date—

14 “(i) no State court may issue any order af-  
15 fecting the Secretary's actions with respect to  
16 such guaranty agency;

17 “(ii) any contract with respect to the ad-  
18 ministration of reserve funds held by a guar-  
19 anty agency, or the administration of any assets  
20 purchased or developed with the reserve funds  
21 of the guaranty agency, that is entered into or  
22 extended by the guaranty agency, or any other  
23 party on behalf of or with the concurrence of  
24 the guaranty agency, after the date of enact-  
25 ment of the Student Financial Aid Improve-

1           ments Act of 1997 shall provide that the con-  
 2           tract is terminable by the Secretary upon 30  
 3           days notice to the contracting parties if the  
 4           Secretary determines that such contract in-  
 5           cludes an impermissible transfer of the reserve  
 6           funds or assets, or is otherwise inconsistent  
 7           with the terms or purposes of this section; and

8           “(iii) no provision of State law shall apply  
 9           to the actions of the Secretary in terminating  
 10          the operations of a guaranty agency.”; and

11          (H) by adding after paragraph (9) the fol-  
 12          lowing new paragraph:

13          “(10) USE OF SURPLUS FUNDS.—(A) A guar-  
 14          anty agency with an agreement under this sub-  
 15          section may retain the amount determined in accord-  
 16          ance with subparagraph (B) for activities in support  
 17          of postsecondary education that are approved by the  
 18          Secretary.”

19          “(B)(i) A guaranty agency may retain 50 per-  
 20          cent of its net revenues for fiscal year 1998 in ex-  
 21          cess of the guaranty agency’s need for working cap-  
 22          ital for such year, as determined after compliance  
 23          with section 422(h), for approved activities.

1           “(ii) A guaranty agency may retain for ap-  
 2           proved activities for fiscal year 1999 and succeeding  
 3           fiscal years the lesser of—

4                   “(I) 50 percent of its net revenues for such  
 5           year in excess of its need for working capital,  
 6           as determined after compliance with section  
 7           422(h); or

8                   “(II) the amount of its net revenues for  
 9           such year in excess of its need for working cap-  
 10          ital, as determined after compliance with sec-  
 11          tion 422(h), that is equal to a uniform percent-  
 12          age, established annually by the Secretary, of  
 13          federal revenues received by the guaranty agen-  
 14          cy for the preceding year. In determining such  
 15          percentage, the Secretary shall take into ac-  
 16          count all guaranty agencies’ revenues and costs  
 17          for the preceding year to determine an adequate  
 18          level of economic incentive for guaranty agen-  
 19          cies to maximize their efficiency.”;

20          (4) by amending subsection (g) to read as fol-  
 21          lows:

22          “(g) DEFAULT PREVENTION FEE PAID BY LEND-  
 23          ERS.—(1) An eligible lender shall pay a guaranty agency,  
 24          to which such lender referred a delinquent loan, a default  
 25          prevention fee of not to exceed \$100 per borrower account

1 if the guaranty agency succeeds in bringing such loan into  
 2 current repayment status.

3 “(2) The Secretary shall prescribe in regulations the  
 4 circumstances in which a lender may obtain a refund of  
 5 a default prevention fee if the borrower of a loan on which  
 6 such fee was paid subsequently defaults on such loan.”;  
 7 and

8 (5) in subsection (l)—

9 (A) in paragraph (1), by striking the para-  
 10 graph designation and the paragraph heading;  
 11 and

12 (B) by striking paragraph (2).

13 (b) Section 435(j) of the Act is amended by striking  
 14 “section 428(b).” and inserting “section 428(c).”

#### 15 REPEAL OF STATE SHARE OF DEFAULT COSTS

16 SEC. 227. Section 428 of the Act is further amended  
 17 by striking subsection (n).

#### 18 CONSOLIDATION LOANS

19 SEC. 228. (a) Section 428C of the Act is further  
 20 amended—

21 (1) in subsection (a)(3)—

22 (A) in subparagraph (A), by inserting “in  
 23 an in-school period,” after “for a consolidation  
 24 loan is”; and

25 (B) in subparagraph (B), by amending  
 26 clause (i) to read as follows:



1           “(i) Eligible student loans received by the  
2           eligible borrower may be added to a consolida-  
3           tion loan during the 180-day period following  
4           the making of such consolidation loan.”;

5           (2) in subsection (b)(4)(C), by amending clause  
6           (ii) to read as follows:

7           “(ii) provides that interest shall accrue and  
8           be paid—

9           “(I) by the Secretary, in the case of  
10           a consolidation loan made before October  
11           1, 1997 that consolidated only Federal  
12           Stafford Loans for which the student bor-  
13           rower received an interest subsidy under  
14           section 428;

15           “(II) by the Secretary, in the case of  
16           a consolidation loan made on or after Oc-  
17           tober 1, 1997, except that the Secretary  
18           shall pay such interest only on that portion  
19           of the loan that repays Federal Stafford  
20           Loans for which the student borrower re-  
21           ceived an interest subsidy under section  
22           428; and

23           “(III) by the borrower, or capitalized,  
24           in the case of a consolidation loan, or por-

1           tion thereof, other than one described in  
 2           subclause (I) or (II);” and

3       (3) in subsection (c)—

4           (A) in paragraph (1)—

5               (i) in subparagraph (A), by striking  
 6               “subparagraph (B) or (C).” and inserting  
 7               “subparagraph (B), (C), (D), or (E), and  
 8               subject to subparagraph (F).”;

9               (ii) in subparagraph (C), by striking  
 10              “after July 1, 1994,” and inserting “after  
 11              July 1, 1994 and before October 1,  
 12              1997,”; and

13              (iii) by adding after subparagraph (C)  
 14              the following new subparagraphs:

15              “(D) A consolidation loan made on or after  
 16              October 1, 1997, that repays loans made under  
 17              section 428 or 428H, or a combination thereof,  
 18              shall bear interest at an annual rate on the un-  
 19              paid principal balance of the loan that is equal  
 20              to—

21                      “(i) the rate specified in section  
 22                      427A(g), in the case of a borrower in an  
 23                      in-school or grace period; or

24                      “(ii) the rate specified in section  
 25                      427A(h)(1) in all other cases.

1           “(E) A consolidation loan made on or after  
2           October 1, 1997, that repays loans made under  
3           section 428B shall bear interest at an annual  
4           rate on the unpaid principal balance of the loan  
5           that is equal to the rate specified in section  
6           427A(h)(2).

7           “(F) Notwithstanding any other provision  
8           of this section, the Secretary may prescribe in  
9           regulation such procedures as may be necessary  
10          to ensure that—

11               “(i) a borrower of a consolidation loan  
12               that repays a combination of loans eligible  
13               to be consolidated under this section, shall  
14               continue to receive, after consolidation, any  
15               interest subsidy benefits associated with a  
16               loan, without extending such benefits to  
17               any other loans consolidated that do not  
18               have interest subsidy benefits;

19               “(ii) in the case of a consolidation  
20               loan that repays a combination of loans de-  
21               scribed in subparagraphs (D) and (E), the  
22               interest rate on such consolidation loan  
23               shall be calculated in a manner that re-  
24               flects the interest rate applicable to loans  
25               made under each such subparagraph; and

1                   “(iii) in the case of a consolidation  
 2                   loan that repays a loan eligible to be con-  
 3                   solidated under this section other than  
 4                   those described in subparagraphs (D) and  
 5                   (E), the interest rate applicable to such  
 6                   other loan shall be the interest rate de-  
 7                   scribed in subparagraph (D) if such other  
 8                   loan is considered by the Secretary to be  
 9                   subsidized, and the interest rate described  
 10                  in subparagraph (E) if such other loan is  
 11                  considered by the Secretary to be  
 12                  unsubsidized.”; and

13               (B) in paragraph (4)—

14                   (i) by striking “Repayment” and in-  
 15                   serting “(A) Except as provided in sub-  
 16                   paragraph (B), repayment”; and

17                   (ii) by adding after subparagraph (A)  
 18                   (as redesignated by clause (i)) the follow-  
 19                   ing new subparagraph:

20               “(B) In the case of a consolidation loan  
 21               that repays a loan made under this part for  
 22               which the borrower is in an in-school period at  
 23               the time the consolidation application is re-  
 24               ceived, the repayment period for such consolida-  
 25               tion loan shall commence after the completion

1 of a grace period, as described in section  
 2 428(b)(7)(i).”.

3 CONTRACTS WITH OTHER ENTITIES

4 SEC. 229. Part B of title IV of the Act is amended  
 5 by inserting after section 428D the following new section:

6 “CONTRACT AUTHORITY

7 “SEC. 428E. The Secretary may enter into one or  
 8 more contracts to carry out any of the functions that oth-  
 9 erwise would be carried out by a guaranty agency with  
 10 an agreement under section 428(c).”.

11 ELIGIBLE LENDER

12 SEC. 230. Section 435(d) of the Act is amended—

13 (1) in paragraph (1), by striking “(6),” and in-  
 14 serting “(7),”; and

15 (2) by adding after paragraph (6) the following  
 16 new paragraph:

17 “(7) UNIFORM TERMS AND CONDITIONS.—Sub-  
 18 ject to such exceptions as the Secretary may pre-  
 19 scribe in regulations, the term ‘eligible lender’ shall  
 20 not include any lender that offers different terms  
 21 and conditions to different borrowers of the same  
 22 type of loan made or insured under this part.”.

23 SPECIAL ALLOWANCE

24 SEC. 231. Section 438 of the Act is amended—

1           (1) in subsection (a)(3), by striking “quarterly  
2       rate” each place it appears and inserting “rate”;  
3       and

4           (2) in subsection (b)—

5               (A) in paragraph (2)—

6                   (i) by striking “subparagraphs (B),  
7                   (C), (D), (E), and (F)” and inserting  
8                   “subparagraphs (B), (C), (D), (E), (F),  
9                   and (G)”; and

10               (ii) by adding after subparagraph (F)  
11               the following new subparagraph:

12                   “(G)(i) Notwithstanding any other provi-  
13                   sion of this section, in the case of loans made  
14                   or insured under this part for which the first  
15                   disbursement is made on or after October 1,  
16                   1997, the special allowance paid pursuant to  
17                   this subsection shall be computed for any 12-  
18                   month period beginning on July 1 and ending  
19                   on June 30 by—

20                       “(I) determining the bond equivalent  
21                       rate on the preceding June 1 of the securi-  
22                       ties with a comparable maturity, as estab-  
23                       lished by the Secretary; and

24                       “(II) subtracting the applicable inter-  
25                       est rate on such loans from such amount.

1           “(ii) The amount of special allowance com-  
 2           puted under clause (i) shall be paid in quarterly  
 3           increments for the 3-month periods described in  
 4           paragraph (1).”; and

5           (B) in paragraph (3), in the second sen-  
 6           tence, by striking “determined for any such 3-  
 7           month period shall be paid promptly after the  
 8           close of such period,” and inserting “calculated  
 9           under this subsection shall be paid promptly  
 10          after the close of the 3-month period for which  
 11          such special allowance payment is due,”.

12   STUDENT LOAN MARKETING ASSOCIATION OFFSET FEE

13       SEC. 232. Section 439(h)(7) of the Act is amended  
 14   by adding after subparagraph (C) the following new sub-  
 15   paragraph:

16           “(D) The calculation of the fee required under  
 17          subparagraph (A) or (B), as the case may be, shall  
 18          be determined on the basis of the principal amount  
 19          of all loans (except for loans made under sections  
 20          428C, 439(o) or 439(q))—

21           “(i) owned, in whole or in part, by the As-  
 22          sociation, any subsidiary of the Association, or  
 23          any company, trust or other entity owned by, or  
 24          controlled by, the Association; or

25           “(ii) held by a trust (including by a trustee  
 26          on behalf of a trust), or by any other entity in

1           which the Association, or any subsidiary, holds  
 2           more than a minimal beneficial interest (as de-  
 3           termined by the Secretary).”.

4                               DIRECT LOAN TRANSITION FEE

5       SEC. 233. Section 452(b) of the Act is amended to  
 6 read as follows:

7       “(b) TRANSITION FEES.—The Secretary shall pay  
 8 fees to institutions of higher education (or a consortium  
 9 of those institutions) with agreements under section  
 10 454(b), in the first year of their participation in the pro-  
 11 gram authorized by this part, in order to compensate for  
 12 costs associated with their transition to the program. The  
 13 fees shall not exceed an average of \$10 per borrower at  
 14 all institutions receiving the fees.”.

15                           FUNDS FOR ADMINISTRATIVE EXPENSES

16       SEC. 234. Section 458(a) of the Act is amended, in  
 17 the first sentence, by striking “\$260,000,000” through  
 18 the end of the sentence and inserting the following:  
 19 “\$532,000,000 in fiscal year 1998, \$610,000,000 in fiscal  
 20 year 1999, \$705,000,000 in fiscal year 2000,  
 21 \$806,000,000 in fiscal year 2001, and \$904,000,000 in  
 22 fiscal year 2002.”.

23   PART C—NEED ANALYSIS AND GENERAL PROVISIONS

24       HOPE SCHOLARSHIP NEED ANALYSIS AMENDMENTS

25       SEC. 241. (a) CALCULATION OF AVAILABLE IN-  
 26 COME.—(1) Section 475 of the Act is amended—



1           (A) by amending subsection (c)(1)(A) to read  
2 as follows:

3           “(A) the sum of—

4               “(i) Federal income taxes;

5               “(ii) the amount of any tax credit  
6 taken under section 24A of the Internal  
7 Revenue Code of 1986; and

8               “(iii) the amount by which tax liabil-  
9 ity determined without regard to the de-  
10 duction provided under section 221 of the  
11 Internal Revenue Code exceeds the amount  
12 of tax liability determined after taking  
13 such deduction into account;” and

14          (B) by amending subsection (g)(2)(A) to read  
15 as follows:

16          “(A) the sum of—

17               “(i) Federal income taxes;

18               “(ii) the amount of any tax credit  
19 taken by the student under section 24A of  
20 the Internal Revenue Code of 1986; and

21               “(iii) the amount by which tax liabil-  
22 ity determined without regard to the de-  
23 duction provided under section 221 of the  
24 Internal Revenue Code exceeds the amount

1 of tax liability determined after taking  
2 such deduction into account;”.

3 (2) Section 476(b)(1)(A)(i) of the Act is amended to  
4 read as follows:

5 “(A) the sum of—

6 “(i) Federal income taxes;

7 “(ii) the amount of any tax credit  
8 taken under section 24A of the Internal  
9 Revenue Code of 1986; and

10 “(iii) the amount by which tax liabil-  
11 ity determined without regard to the de-  
12 duction provided under section 221 of the  
13 Internal Revenue Code exceeds the amount  
14 of tax liability determined after taking  
15 such deduction into account;”.

16 (3) Section 477(b)(1)(A) of the Act is amended to  
17 read as follows:

18 “(A) the sum of—

19 “(i) Federal income taxes;

20 “(ii) the amount of any tax credit  
21 taken under section 24A of the Internal  
22 Revenue Code of 1986; and

23 “(iii) the amount by which tax liabil-  
24 ity determined without regard to the de-  
25 duction provided under section 221 of the

1 Internal Revenue Code exceeds the amount  
 2 of tax liability determined after taking  
 3 such deduction into account;”.

4 (b) DEFINITIONS.—Section 480 of the Act is amend-  
 5 ed—

6 (1) in subsection (a)(2)—

7 (A) by striking “and no portion” and in-  
 8 serting “no portion”; and

9 (B) by inserting after “(42 U.S.C. 12571  
 10 *et seq.*),” the following: “and no portion of any  
 11 tax credit taken under section 24A of the Inter-  
 12 nal Revenue Code of 1986;”;

13 (2) in subsection (b)—

14 (A) in paragraph (13), by striking “and”  
 15 at the end of the paragraph;

16 (B) by redesignating paragraph (14) as  
 17 paragraph (15); and

18 (C) by inserting paragraph (13) the follow-  
 19 ing new paragraph:

20 “(14) any tax deduction taken under section  
 21 221 of the Internal Revenue Code of 1986; and”;

22 (3) in subsection (e)—

23 (A) in paragraph (3), by striking “and” at  
 24 the end of the paragraph;

1 (B) in paragraph (4), by striking the pe-  
 2 riod at the end of the paragraph and inserting  
 3 “; and”; and

4 (C) by adding after paragraph (4) the fol-  
 5 lowing new paragraph:

6 “(5) any tax credit taken under section 24A of  
 7 the Internal Revenue Code of 1986; and”;

8 (4) in section (j), by adding after paragraph (3)  
 9 the following new paragraph:

10 “(4) Notwithstanding paragraph (1), a tax  
 11 credit taken under section 24A of the Internal Reve-  
 12 nue Code of 1986 shall not be treated as estimated  
 13 financial assistance for purposes of section 471(3).”.

14 INCOME PROTECTION ALLOWANCE FOR INDEPENDENT  
 15 STUDENTS WITHOUT DEPENDENTS

16 SEC. 242. (a) Section 476(b) of the Act is amended—  
 17 (1) in paragraph (1)—

18 (A) in subparagraph (A)—

19 (i) by amending clause (iv) to read as  
 20 follows:

21 “(iv) an income protection allowance,  
 22 determined in accordance with paragraph  
 23 (4);”; and

24 (ii) in clause (v), by striking “para-  
 25 graph (4);” and inserting “paragraph  
 26 (5);”; and

1 (B) in subparagraph (B), by striking  
 2 “paragraph (5).” and inserting “paragraph  
 3 (6).”;

4 (2) by redesignating paragraphs (4) and (5) as  
 5 paragraphs (5) and (6), respectively; and

6 (3) by inserting after paragraph (3) the follow-  
 7 ing new paragraph:

8 “(4) INCOME PROTECTION ALLOWANCE.—The  
 9 income protection allowance is determined by the fol-  
 10 lowing table (or a successor table prescribed by the  
 11 Secretary under section 478):

“INCOME PROTECTION ALLOWANCE		
Family size (including student)	Number in college	
	1	2
1 .....	8,000 .....	
2 .....	10,520 .....	8,720.”

12 (b) Section 478(b) of the Act is amended by striking  
 13 “sections 475(c)(4) and 477(b)(4).” and inserting “sec-  
 14 tions 475(c)(4), 476(b)(4), and 477(b)(4).”.

15 HOPE SCHOLARSHIP DEFINITIONS

16 SEC. 243. Section 481 of the Act is amended by add-  
 17 ing after subsection (f) the following new subsection:

18 “(g) HOPE SCHOLARSHIP DEFINITIONS.—(1) As  
 19 necessary for purposes of the tax credit provided under  
 20 section 24A of the Internal Revenue Code of 1986, and  
 21 the deduction provided under section 221 of such Code,

1 the Secretary of Education shall define in regulation the  
2 following terms:

3 “(A) academic period;

4 “(B) normal full-time workload;

5 “(C) first two years of postsecondary education;

6 “(D) qualifying grade point average;

7 “(E) job skills; and

8 “(F) new job skills.

9 “(2) Notwithstanding any other provision of law, the  
10 regulations described in paragraph (1) shall not be subject  
11 to section 482(c).”.

#### 12 EXTENSION OF STUDENT AID PROGRAMS

13 SEC. 244. Title IV of the Act is amended—

14 (1) in section 401(a)(1), by striking “Septem-  
15 ber 30, 1998,” and inserting “September 30,  
16 1999,”;

17 (2) in section 424(a), by striking “1998.” and  
18 “2002.” and inserting “2002.” and “2006.”, respec-  
19 tively;

20 (3) in section 428(a)(5), by striking “1998,”  
21 and “2002.” and inserting “2002,” and “2006.”, re-  
22 spectively;

23 (4) in section 428C(e), by striking “1998.” and  
24 inserting “2002.”; and

25 (5) in section 466—

26 (A) in subsection (a)—

1 (i) in the matter preceding paragraph  
 2 (1), by striking “September 30, 1996,”  
 3 and March 31, 1997,” and inserting “Sep-  
 4 tember 30, 1998,” and March 31, 1999”,  
 5 respectively; and

6 (ii) in paragraph (1), by striking  
 7 “September 30, 1996,” and inserting  
 8 “September 30, 1998,”;

9 (B) in subsection (b), by striking “Septem-  
 10 ber 30, 1996,” and inserting “September 30,  
 11 1998,”; and

12 (C) in subsection (c), by striking out “Oc-  
 13 tober 1, 1997,” and inserting “October 1,  
 14 1998,”.

#### 15 PART D—EFFECTIVE DATES

##### 16 EFFECTIVE DATES

17 SEC. 251. (a) Except as otherwise provided in this  
 18 section, the amendments made by this title shall take ef-  
 19 fect on the date of enactment of this Act.

20 (b) Section 211 is effective for the calculation of Pell  
 21 Grant awards for award years beginning on or after July  
 22 1, 1998.

23 (c) Section 222 is effective for a loan made under  
 24 part B or part D of title IV of the Act for which the first  
 25 disbursement is made on or after October 1, 1997.

1 (d) Section 223(a)(3) and section 428(b)(5)(C) of the  
2 Act (as added by section 226(a)(2)(E)) are effective as  
3 if they were enacted on July 23, 1992.

4 (e) Sections 224, 229, and 230 take effect on October  
5 1, 1997.

6 (f) Section 231 is effective for a loan made or insured  
7 under part B of title IV of the Act for which the first  
8 disbursement is made on or after October 1, 1997.

9 (g) Section 232 is effective as if it were enacted on  
10 August 10, 1993, but does not apply to the privatized en-  
11 tity that may be created as a result of the Student Loan  
12 Marketing Association Reorganization Act of 1996 (Title  
13 VI of the Departments of Labor, Health and Human Serv-  
14 ices, Education, and Related Agencies Appropriations Act,  
15 1997, as enacted by section 101(e) of Division A of Public  
16 Law No. 104–208).

17 (h) Section 242 is effective for determinations of need  
18 for academic years beginning on or after July 1, 1998.

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